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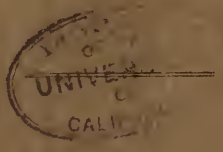
Why Railroads Need Higher Rates

By E. P. RIPLEY,

PRESIDENT OF THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

VERBATIM TESTIMONY
GIVEN TO INTERSTATE COMMERCE COMMISSION,
CHICAGO, AUGUST 29 AND 30, 1910, IN SUPPORT OF PROPOSED ADVANCE
IN RATES BETWEEN CHICAGO AND ROCKY MOUNTAINS,
WITH SOME NEWSPAPER COMMENT



"THE GREATEST CONTEST IN RAILWAY ANNALS"-*Chicago Record Herald, August 30, 1910.*

"THE CONSTRUCTION EXPENDITURES OF AN AMERICAN RAILROAD WILL NEVER END"—*Chicago Tribune, September 1, 1910.*

"THE RAILROADS ARE NOT AS SAFE AND MODERN AS THEY SHOULD BE, AND WITHOUT MORE INCOME THE DEMANDS FOR TRACK ELEVATION, NEW STATIONS, MORE COMFORT, GREATER SAFETY, CANNOT BE MET"—*Chicago Record-Herald, August 31, 1910.*

"VAST TRADE IS LOST TO THE COUNTRY BY RAILROAD ECONOMY. SANTA FE BUDGETS SHORTENED BY MILLIONS WHICH MIGHT HAVE GONE INTO STEEL AND OTHER INDUSTRIES. EXPENSES GAIN ON EARNINGS"—*Chicago Evening Post, August 31, 1910.*

A. M. C.

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The matter of advances of rates by carriers in Western Trunk Line, Trans-Missouri, and Illinois Freight Committee territories, numbered 3500 on the docket of the Interstate Commerce Commission, came on for hearing in the Federal Building at Chicago on August 29, 1910. Some of the rates had been included in tariffs filed with the Commission in accordance with law and were to become effective July 1 last; but in the night of June 30 the Government secured a restraining order from the United States Circuit Court at Hannibal, Missouri, without notice to the carriers, contrary to the argument and the spirit of the times that injunctions shall not be sought or granted without notice.

By subsequent stipulation between the President of the United States on one hand and the presidents of the various railway companies on the other the rates so suspended, as well as rates in other new tariffs not affected by the order of the court, were set down for consideration before the Interstate Commerce Commission at Chicago on August 29. The Atchison, Topeka and Santa Fe Railway Company was the first carrier to present its case, and President Ripley was the first witness to appear under the new Interstate Commerce Law, approved June 18, 1910, and commonly known as the Mann-Elkins Law, Section 15 of which authorizes the Interstate Commerce Commission, either upon complaint or upon its own initiative, to suspend the operation of a tariff or schedule of rates filed by carriers until investigation has been made into the reasonableness of such rates.

George N. Brown and C. R. Hillyer,
Special Examiners for the Interstate Commerce Commission.

Direct examination by—
T. J. Norton, General Attorney of The Atchison, Topeka and Santa Fe Railway Co.

Cross-examination by—
Frank Lyon, Counsel for Interstate Commerce Commission,
J. H. Atwood, Kansas City, for the National Industrial Traffic League,
Clifford Thorne, Des Moines, for National Live Stock Association.

The testimony of President Ripley follows:

Direct Examination.

Mr. Norton. Your name is E. P. Ripley?
Mr. Ripley. Yes, sir.

Q. You are president of the Atchison, Topeka & Santa Fe Railway Company? A. Yes, sir.

Q. How long have you held that office? A. Fourteen years and six months.

Q. How long have you been in the railway service? A. About forty years.

Q. In what capacities have you acted as a railway man? A. In practically all capacities, from clerk to my present position.

Q. Have you been in the freight department? A. Yes, sir.

Q. What position did you hold in that finally? A. First as agent in Boston, afterwards as general eastern agent in New York, afterwards as general freight agent in Chicago, traffic manager and vice-president.

Q. With what company were you traffic manager and vice-president? A. Well, I was traffic manager and general manager of the Chicago, Burlington & Quincy, and vice-president of the Chicago, Milwaukee & St. Paul.

Q. How long were you in the traffic department, how many years? A. Well, I have been more or less in the traffic department all my life. That is, I have had more or less to do with it. I was directly general freight agent for eight years and then traffic manager for three years more, and then general manager, and then as vice-president of the St. Paul I had general charge of the freight business.

Q. Have you had experience also in the operating department? A. Yes, sir.

Q. How long and what kind? A. I was general manager of the Burlington for two years and have had for the last fifteen years general supervision of the operating department as well as other departments.

Q. In your present office you have to do directly with both operating and traffic? A. Yes, sir.

FORMER RATES TOO LOW.

Q. Now, Mr. Ripley, why were the rates involved in this litigation raised, if you know? A. They have not been raised. An attempt was made to raise them for two reasons: one was that they were too low *per se,* judged from any reasonable standard; but perhaps the most potent reason was that we needed the money.

Q. Why do you say they were too low *per se?* A. Because the commodity rates that are covered by the question

at issue now had been forced by various causes, some of them within and some of them without the control of the carrier, down to a point which was unreasonable from the standpoint of the value of the service to the shipper, and unreasonable also from the standpoint of the return to the carrier.

Q. You say this condition was brought about by circumstances over which the carriers had no control in many instances? A. The carriers as a whole had no control over that whatever. The carriers individually, in some cases, could have resisted; but these commodity rates were the result of the competition of commodity with commodity, the competition of place with place, locality with locality, and, more than all, the competition, the "bearing" of rates, so to speak, by the shippers themselves. The railroads were absolutely helpless and have been always so as against the shipper.

Q. That is particularly true as against a shipper commanding a large volume of freight? A. Naturally.

NEED OF MORE MONEY.

Q. Now you spoke about the Santa Fe needing the money. Has it not been earning enough? A. I think not. The Santa Fe has been—I suppose it would pass as having been a reasonably prosperous concern, yet its earnings for the fifteen years, practically fifteen years during which I have had jurisdiction over it, have been on its capitalization about 4.75 per cent. Perhaps the whole story ought to be told: that average on capitalization is over a series of fifteen years. Naturally the last ten years have been better than the first ten years, but that is the story as to fifteen years; and even in the last ten years the earnings on the capitalization have been something less than 6 per cent. I have not the exact figures but they are in a statement there (referring to Santa Fe Exhibit 1, showing the financial history of the company).

Furthermore the capitalization does not represent the value of the property. The reproduction value of the property to-day would, in my opinion, and I am not stating it merely as an opinion—I have reasons for believing it and knowing it—the property could not be reproduced to-day for its capitalization. If you separate the stock from the bonds the property has earned in one year as high as 13 per cent. on its capital stock, but that was an exceedingly—

Q. That is on the common stock? A. That is on the common stock. That was an exceedingly prosperous year. Last year, the year just closed, it earned 8.8 per cent.

Now, you ask if that is not money enough, and I say most emphatically that it is not money enough. It is not money enough to do the things that the public expect of us, the things that we must do if we are to keep abreast of the times. When an institution as large as ours is standing still, it begins to go backwards, and if we are to meet, or approximately meet, the demands of the public we have got to earn a very much larger margin than we have earned yet, in order to maintain our credit and obtain the money to do what is necessary to be done.

EARNINGS ALWAYS INADEQUATE.

Q. At this point, in line with your statement that the Santa Fe during the fifteen years of its existence has paid on an average 4.68 per cent. on its stock— A. On its capitalization.

Q. On its capitalization—I offer—this compilation shows earnings on the investment? A. That is on the investment.

Q. Paid on its investment. I offer as Santa Fe Exhibit 1 this tabulation, a copy of which I give to Mr. Lyon, representing the Interstate Commerce Commission.

Q. Now, do you think the Santa Fe has ever earned enough to maintain its credit, or for the public wellfare, so far as freights and passengers are concerned? A. It is somewhat embarrassing to say that the Santa Fe never has earned enough to maintain its credit, because its credit, as railroad credits go, is very good; but the majority of the bonds we have sold in the past have been sold at less than par. While some have been sold at par, altogether our receipts from the sales of bonds are about $8,000,000 to date less than their face value, representing the discount that we are obliged to accept.

As to our having had money enough, I suppose our experience is the same as that of most other railroads, and that is that there has never been a time when we did not have before us pressing demands for two or three or four times as much money as was available. We make an annual budget every year, our subordinate officers state their requirements, and state what in their judgment it is necessary or desirable to expend on the property, and never yet have we been able to appropriate as much as was asked for, and very seldom have we been able to appropriate half what was asked for.

Q. Have you at any time been obliged to reduce what you had appropriated when it came to expending it? A. Yes, several times we have found that the condition of the market

and the credit of the railroads generally was unequal to continue that which we had projected, and we were obliged to cut that down.

Q. Do you think that a railroad situated as the Santa Fe is, reaching from the Lakes to the Gulf, and to the Pacific Ocean, should ever have been required to sell its bonds at a discount of about $8,000,000? A. Well, that is a matter for the public, and for those who have money to loan, to judge of. We do not think that we ought to be required to sell our bonds at a discount; but if the people who have the money differ with us in that respect, we are really helpless.

Our history in that respect is probably as favorable as that of most of the railroads, perhaps better than that of the average railroad in the United States, but our credit ought to be good enough so we could always sell our bonds and stock at par. The ideal condition, of course, is that we should be able to sell our *stock* at par.

Partners Wanted, Not Creditors.

We should be able to take in more *partners* as stockholders instead of taking in more *creditors* as bondholders. But that has not been always possible; in fact it is very seldom possible, either with us or with any railroad company.

Q. Would you not say that a railroad situated like the Santa Fe, with its earning power, if it had adequate earnings, would sell its securities at par? A. If its earnings were such as to give the public confidence that dividends could be maintained at a reasonable rate, considering the risk, there would be no difficulty in selling its stock at par. Some railroads are fortunate enough to do that. The Pensylvania, I think, has issued no bonds for a good many years. It always has obtained the money for necessary improvements by selling its stock. That is the ideal condition.

Q. What is your idea as to what improvements should be made out of the earnings and what out of capitalization? That is to say, should the rates in this case be increased so that improvements may be made directly from the earnings? A. Well, in part. There are certain classes of expenditures that should be made from earnings always rather than from the sale of either stock or bonds.

Q. For example? A. Well, for example, a very large class of expenditures that return no interest, upon which there is no probability and no possibility of any direct return either

in saving of expenditures, or increasing the earnings. In that class are the various restrictions and improvements demanded by municipalities, where we are obliged, for instance, to elevate our tracks in the cities. That is something the return from which financially from a railroad standpoint amounts to nothing. It is of safety to the public, convenient to the public, and in a certain way it is a convenience to the railroad; but the interest on the cost of an improvement of that kind is ten or twenty or thirty times any benefit that accrues from it to the railroads themselves.

The building of fine stations, while it gratifies the local pride of a community, while every little town along the line wants a station which shall be the pride of the place and in most cases the very best building in the city—does not sleep nights, so to speak, until it gets something of that kind, particularly if another town has it—all those things cost the railroad a great deal of money, yet they pay the railroad absolutely nothing in return.

The same is true of the paving of streets. The communities all along our line, as they improve, as they grow up from country villages to would-be metropolises, demand all manner of improvements in the way of gates, in the way of paving of crossing, in additions to stations, and all that sort of thing; and they ask for it properly, it is a proper municipal regulation, but for the expenditure there is no return to a railroad company, and all those things, in my judgment, ought to be met very largely out of earnings.

The question of the proper distribution of the burden of such expenses between capital and earnings is one that can be argued on both sides and argued almost indefinitely, but it is my belief that the present generation should join in the expense of those matters—that the railroads should be allowed to pay for them out of earnings in order that the entire burden may not be put in capital and thus settled on posterity.

When a municipality builds a water works, or issues bonds for the improvements of its streets, it begins at once to apply a certain amount of the taxes to the extinction of those bonds. The railroad companies should be permitted to do the same thing. A portion of the income derived by these municipalities from taxes is immediately set aside as a sinking fund to extinguish that debt. Unless the railroad company is permitted to earn sufficient margin over and above its dividend requirements—assuming always that its dividend require-

ments are reasoanble—unless the railroad company is permitted to earn a substantial margin over and above that, it not only loses its credit, but it is also unable to meet the class of expenditures that I have been discussing without the sale of additional bonds, the placing of additional mortgages on its property, and the consequent transferring of a certain burden upon posterity which ought to be borne by the present generation. That is what has been done in England. The policy of paying everything out in dividends, putting nothing back into the property out of earnings, has been pursued to an extent there that has made the capitalization of those railroads so large that it is almost impossible for them to earn anything on it.

Q. Now, in what is commonly known among lawyers as the Knoxville Water case it was stated by the Supreme Court of the United States that in addition to keeping up the plant in workable and proper condition the owners were entitled to charge something off, or set something aside, for what might be termed obsolesence, and I think it was stated at about 2 per cent. in that case. Do you think that a railroad, in addition to preparing for the deterioration which the Interstate Commerce Commissions prescribe for its equipment, should also prepare for the obsolesence of the plant itself? A. A railroad company certainly should be sufficiently strong financially to take care of it, either by improvement—either by a stated charge to depreciation, or by improvements made out of earnings which would offset any depreciation that there may be. For instance, a station building which is entirely adequate for today, or was entirely adequate when it was built fifteen years ago, becomes inadequate, and it has to be torn down and cast away and replaced with another building. I have already said that I think these things should be largely, if not entirely, made out of earnings, and that provides in a way for obsolesence or depreciation. The general custom has been, I think, fully to maintain the properties out of earnings wherever that was possible, wherever there were earnings enough; and that full maintenance, accompanied perhaps with some improvement, has been supposed to take care of the depreciation, so that there never has been any actual charge for depreciation on roadway and track. But whichever way it is done, it amounts to the same thing; you either raise enough money from the public to take care of those things out of earnings, or you should charge enough in rates to take care of them by charging depreciation to expenses.

FUTURE NON-PAYING INVESTMENTS.

Q. Speaking of the expensive improvements which do not yield any added revenue in return, referring to stations, will you have in the future large demands to make improvements of this sort? Have you any in mind? A. We have a great many in mind. There is not a railroad in this western territory which has not substantially arrived now at the point where all its original facilities which have not already been replaced must be replaced. Practically all the railroads in this western country have been partially rebuilt, or will have to be almost immediately partially rebuilt. Many of them have been almost wholly rebuilt, and yet there are a thousand and one things that are almost obsolete which have got to be renewed. We have very large matters of that kind staring us in the face now. The railroads entering Kansas City, for instance, are about to spend $30,000,000 for additional facilities in that city, including a magnificent station. Some of the railroads in Chicago, notably the line over which we enter the city, have got very soon to make a similar expenditure here.

Q. That is the Dearborn street station? A. Yes. And the Northwestern has spent, I do not know how many million dollars, for a station in Chicago, on which investment it cannot earn a cent of interest. The Pennsylvania is in the same position. I suppose that there has got to be spent in Chicago perhaps 60 or 70 million dollars; that is, there should be in the next five or six years—for improvements that will pay the railroads nothing practically.

Q. In addition to dividends which give the company credit, and to making large improvements out of earnings, and to guard against deterioration of the plant, should the earnings be sufficient to protect you against lean years? A. Lean years come as we all know, and there ought to be the same provision for them that any mercantile establishment has. Railroads have got to take their chances with the public so far as the lean years are concerned, and they certainly ought not to be judged as to their results by the best years any more than by the worst.

THE "BURDEN" ON THE PUBLIC.

Q. Speaking on what the rate should be, how much concern, in your opinion, does the public have in reasonable rates

or in the rates as charged? A. As to the particular rates in question—and, by the way, I ought to say that these particular advances amount to very little in money; these particular advances so far as applied to us will not bring us one-tenth of what we ought to have—so far as the results on the public are concerned, of course there are two classes of the public. As to the consumer, all these rates that are under discussion are absolutely a negligible quantity. There is not a family in the United States that would know the difference between the rates as they exist now and the rates that are proposed here, if they were not told of it. I doubt whether the rates that are proposed here would make a difference—to be exceedingly liberal, I do not think there is any family of five persons whose income would be depleted by $1 a year by these advances in rates. It is a negligible quantity so far as the consumers are concerned. A great number of these commodities that are under discussion are sold today at the same price everywhere in the United States; the freight charge is absolutely unconsidered, or at least, it is a negligible quantity—they are all sold at the same price regardless of what the freight rate is.

Q. That is particularly true of many kinds of shoes and hats and wearing apparel? A. Almost all standard articles such as are advertised in the papers are sold at the same price the whole country over.

Q. The same at the door of the factory in New England as it is in San Francisco, 3000 miles away? A. Yes.

Q. In any event what part of the rates go back to the public, and in what way? A. Well, on an average, taking the railroads of the United States, about 70 per cent. of every dollar they earn goes back to the public in one shape or another.

Railroads and Labor.

Q. And the bulk of that, as I understand, goes back in labor, or a good part of it? A. In labor directly and indirectly, labor and the material into which labor enters, and which is perhaps the principal factor. I think it is probably quite correct to say that of all the disbursements of a railroad more than half goes to labor.

Q. And that reminds me, that the railway is probably the heaviest single buyer in the country? A. Yes, sir; there is no question about that.

Q. And buys about half the lumber of the United States? A. About one-half, I think it figures.

Q. And so of iron and steel and other commodities? A. Yes.

Q. And in that way, in addition to keeping the enormous payroll of itself up, it attends in great measure to the payrolls of other concerns? A. Very largely.

Q. From your line of statements then I take it that the prosperity of the carriers, that they earn reasonably and move forward and have money to spend, as you have stated, is of more importance than the cheese-paring of a few freight rates? A. Infinitely more. I do not know of anything that would precipitate trouble in this country any more surely or any faster than non-prosperity on the part of the railroads. They are the largest buyers among the single interests in the country, and they are actually the largest buyers of a great many commodities.

Good Rates Essential to Credit.

Q. Well, in addition to being the largest buyers, are they not also the largest borrowers of money? A. I think so. I think that would be pretty generally conceded, that the railroads' financial demands are heavier than those of any other interest.

Q. Is it not true that that is a demand which never ceases? A. It never will cease until the country stops growing. It is very important, I think, that railroad credit should be maintained in order to afford opportunities for investment. Railroad bonds heretofore have been rather a favorite investment on the theory that they were safe properties, safer than the average investment. As soon as that feeling is disturbed it is going to make a great difference to the country. The matter of investments for insurance companies and banks will be a very serious matter.

What are Reasonable Rates?

Q. What is the element of first importance in getting at the reasonableness of freight rates, in your opinion? A. That is a question that is very often asked and which it is difficult to answer in words; it is difficult to express exactly what I mean. First and foremost, there never was any better definition of a reasonable rate than that which was given many years ago by somebody and which has been used as a byword and a reproach ever since, namely, "what the traffic will bear." That

is the best definition that ever was given of it. That does not mean all the traffic will bear, it does not mean all that can be extorted or squeezed out of it, but what the traffic will bear having regard to the freeest possible movement of commodities, the least possible burden on the producer and on the consumer. The middleman can take care of himself. But with those two qualifications, a reasonable rate is what the traffic will bear. If the utmost freedom of action is given, the railroads will carry a very large amount of property at less than the average cost; that is to say, there are conditions under which property can be moved from place to place at less than the average cost of the whole movement and still pay a small margin of profit.

Q. Business requiring that. A. Business requiring it, yes. The trouble is that when the question of reasonableness is involved the public applies to railroad rates their usual standard of reasonableness. For instance, if one asks what is a reasonable price for a lot on Michigan avenue, the mind of the party who is asked immediately reverts to the question of what the property is worth on the other side of the street and what it is worth on some other avenue and what it is worth alongside in a similar location, and he forms his idea of reasonableness on that basis. Similarly, the average citizen, in discussing the question of reasonableness of rates, says that the A, B and C Railroad hauls certain business from A to B at abnormally low rates. He does not know the reason for it. The real reason may be and probably is that if it did not move at that rate it could not move at all; but he immediately applies that standard or criterion to rates which are made under entirely different circumstances, under different conditions, and he says, "This rate you are making is absurd, you are carrying this business at half or even a quarter of what you are charging for this other, therefore your higher rate must be unreasonable." There is no better guide for the making of rates with proper limitation than just that old phrase, what the traffic will bear.

Q. And that has been the one applied from the beginning? A. Yes, always.

Q. And they have not got away from it yet? A. They never will get away from it. Of course restrictions may be placed about it by law or otherwise so that it will be impossible to do that, but that is the real basis upon which rates ought to be made, in my opinion.

Q. Then I take it from your statement that the general test of the reasonableness of rates is the result of their application? A. It is a judicial function, the making of rates, in which all the conditions have got to be taken into account. It is perfectly proper that there should be regulations to prevent, if you please, extortion; although I do not think there ever was any extortion in this country.

Q. Then if in this country or territory the traffic has moved freely and business has been prosperous and commercial houses have made money, more than you have with your railroad, the inference to be deduced from that is that the rates have been reasonable, if I understand your statement? A. That what?

Q. That the rates have been reasonably low? A. I think as a rule that they have been unreasonably low.

Cost of Service Relatively Unimportant.

Q. Coming to the question of volume of traffic and cost of rendering the service, I will ask you first to say what you will about the cost of rendering the service as being an element in the reasonableness of the rates, in ascertaining what are reasonable rates. A. I think that the cost of service is only one of the items to be considered in the making of a reasonable rate, and not a very important item at that—either the cost of service or the returns made on capital. I think that while they may be considered under certain conditions, they are remote. The railroads in this western territory receive today probably less than their expenses or cost would have been 25 years ago.

Transportation Economies.

The railroads of course have been obliged to introduce very great economies. They have built their tracks, enlarged everything they had, their passing tracks, turntables and roundhouses, built larger engines, built larger and better cars; but all those things are accomplished only by very large expenditures of borrowed money and they have failed to offset the reductions in rates which have followed. Those economies are not without their thorns, either. In many respects those economies have not worked out so well as we thought that they would.

Q. For example, when you put on a locomotive of greater

tonnage capacity you have correspondingly to increase the wages of the men who manage and operate it? A. Yes. We are proposing to put on and we have already a few so-called Mallet engines which are practically two engines in one, and a good deal of our economy may be lost there because the men promptly demand twice as much money for running one of those engines.

Q. Those engines also are a great wear and tear upon the track and roadbed? A. Yes. We have had to strengthen all our tracks and bridges in order to carry the amount we have got. Moreover, we build a car now which costs us about 100 per cent. more than the car of 15 years ago. It is built of steel and will carry anywhere from 50 to 100 per cent. more than the car of 15 years ago would carry, and it is equipped with couplers, so that men do not have to go between the cars to couple up trains. That is very proper; it saves personal injuries and men's lives and all that sort of thing. But the result of coupling with the automatic couplers, coupling by impact, as it is called, is that everything in the car that is not nailed down is more or less liable to be broken. Our loss-and-damage claims are running about $1,600,000 a year. They have been enormously increased by just that one improvement, which is looked upon as an economy, but which is not all an economy.

PUBLIC GREATEST BENEFICIARY.

Q. Now, in your opinion, with rates adequate to make expenditures such as you have described, who would get the greater benefit from the use of the money, the stockholders or the public? A. I suppose that would depend very largely on how much was paid to the stockholders and how much was given to the public; it depends on the policy. If a railroad company is so fortunately situated that it can give its stockholders something and give the public something also, the benefits would be largely on the side of the public, because what the public needs is better railroads and better service. There is no railroad in this western country—I will not say that—there is hardly any railroad in this country today that is built as it ought to be built, that has the safety appliances that it ought to have, or that is in the condition that the public interests require. I think all my railroad friends will bear me out in making that statement. Of course we do not like to depreciate our own property, but the best railroads in this coun-

try west of the Allegheny Mountains are very, very far short of what they ought to be to give the service that the public requires and has the right to demand—or would have the right to demand if they paid for it.

LABOR AND WAGES AGAIN.

Q. While I think of it, and before we proceed further, did you state or can you state in amount the increase of wages that the Santa Fe has to meet this current year? A. Well, this current year so far as we know now, our wages have been advanced as compared with last year almost $2,000,000.

Q. That is in addition to numerous advances in years past? A. Oh, yes; I am comparing it with the year before, with last year.

Examiner BROWN. That is your wage advance on the Santa Fe System involves $2,000,000 more than you paid last year?

Mr. RIPLEY. With more to come.

Mr. LYON. What year did you mean to cover by the two million dollars, the year ending June 30th, 1911, or the year preceding?

Mr. RIPLEY. I am talking about the fiscal year which began the first of July last and as compared with the year which ended then.

Examiner HILLYER. Have you any estimate of how much more to come?

Mr. RIPLEY. We cannot tell. We know the enginemen and trainmen are formulating demands. What the ultimate result will be we cannot say. If they should get what they ask for it would add $2,500,000 or more, probably.

FUTURE NEEDS—PAST EXPENDITURES.

Mr. NORTON. Do you want to reduce to a figure, do you want to make a statement, as to what you think the Santa Fe should earn on its investment as shown by the statement put in as Exhibit 1 in order to have money to pay adequately its stockholders, to make the improvements necessary, to borrow money, to have the credit to borrow it at low rates, and to serve the public to the fullest proper capacity? A. That, of course, is a matter of judgment. That would vary with different roads. So far as the Santa Fe is concerned, I think we ought to earn double what we pay in dividends at least. For instance, if we pay six per cent. in dividends, I think we ought

to earn 12 per cent. on our stock, if not more; certainly not less than that.

Q. Now, Mr. Ripley, what has become of the money that you have had heretofore in the operation of the Santa Fe? A. What has become of it?

Q. Yes. I mention that in view of some things from our shipping friends to the effect that we have got a lot of money somewhere. A. We have not got any that is not appropriated. At the moment we have got a little on hand which is going out pretty fast, but I suppose what you mean is how our income has been appropriated?

Q. Yes, and have the proceeds of your bonds gone entirely into the property? A. Absolutely.

Q. In addition to the sales of the bonds on which you suffered discount, as I understand, of about $8,000,000, have you put earnings into the property? A. We have put in about $40,000,000 of earnings in the last 15 years, which has not been capitalized, by the way.

Q. It has not been capitalized? A. No. We have written off—I am not sure that we have written all that off. Mr. Bailey (General Auditor Santa Fe), we have written off about $43,000,000, have we not?

Mr. Bailey. Twenty-three millions written off.

Mr. Ripley. Well, $40,000,000 of earnings have gone into the property, of which $23,000,000 has been written off and absolutely disappeared. In addition to that there has been $3,000,000 received on land sales which has also gone into the property and been written off, is not that right?

Mr. Bailey. Correct.

Mr. Lyon. That is in addition to your dividends declared?

Mr. Ripley. In addition to our dividends declared, but it has not been added to our capital account. And in addition to that, until the Interstate Commerce Commission made certain rules for us, there had been a very liberal application of earnings charged directly to expenses in keeping up the property.

Mr. Norton. I understand this $8,000,000 of discount on your securities has also been written off. A. Yes, it also has been made up and does not appear as capital account.

Examiner Hillyer. What per cent. of discount does that $8,000,000 represent?

Mr. Ripley. Well, various percentages. When we first began to sell our bonds and when our credit was not very good we sold some as low as 86, I think.

Mr. Bailey. 82¼ flat.

Mr. Ripley. 82¼ flat, yes.

Examiner Hillyer. That is the lowest?

Mr. Ripley. That is the lowest, and there have been various fluctuations in our credit.

Mr. Lyon. What did your last bonds sell for?

Mr. Ripley. Our last bonds were convertible bonds, convertible into stock, and sold at par.

Mr. Norton. Sold at par on account of their being convertible, probably? A. Yes.

Mr. Lyon. Do you know that to be a fact? I am trying to get something definite, and Mr. Norton says they were probably sold at par on that account. I wanted to get from you as president something definite.

Mr. Ripley. Inasmuch as our first mortgage bonds are selling at about 98 and our convertibles are selling at about 101, the inference is very clear that the convertible quality or privilege, the gambling chance, is what makes the difference.

Mr. Lyon. About 98 per cent., then, you figure is the value of the bonds, of the flat bond? A. No, I do not think it is worth as much as that. Of course our first mortgage bonds, which are a first lien on everything we have got, are selling for about 98 or 99.

Mr. Norton. It is not likely you could get that figure if you had a large quantity to offer, is it? A. Not now, no.

Economies Again.

Q. Have you said all you care to say on the subject of economies so-called? A. I think so. I think it is difficult to say what the limit of our economies is, and it is difficult also to say what the limit of our expenses will be. There is danger of obsolescence in everything we own. We do not know when we will have to throw away our locomotives; something may be discovered, electrical or otherwise, which will make them obsolete.

Q. How much money have you in locomotives? A. We have practically 2,000 locomotives; I should say $40,000,000.

Q. In addition to setting those aside you would have to supply yourselves with some other motive power. A. Yes.

Q. Probably of equal cost? A. Yes.

AGE OF A RAILROAD.

Examiner BROWN. The thought occurred to me in this connection—I recollect as you went along you stated that the western roads, as I understand, about all of them would have to be rebuilt. Does that mean that the life of a railroad is about 50 years?

Mr. RIPLEY. No.

Examiner BROWN. I take it most of the western roads have been built round about 50 years, have they not?

Mr. RIPLEY. Yes, sir. Some of them longer, but they have been in constant course of rebuilding ever since they were constructed. The railroad of 50 years ago would not carry anything now, and the railroad of 50 years ago would not be considered even equal to a contractor's plant for building a railroad. They have been in constant course of rebuilding ever since, and that has been going on indefinitely.

Mr. NORTON. They have as a matter of fact been rebuilt several times, have they not? A. Oh, yes, built and rebuilt.

Q. Within my recollection the Santa Fe has been rebuilt about three times in the western country? A. Yes.

WHAT DIVIDENDS SHOULD BE.

Q. One thing I want to make distinct while I think of it. In your testimony this forenoon you spoke about earning twice as much from the investment in the property as you paid in dividends. I should like to know what you think you ought to pay in dividends to the shareholders? A. Well, that is a matter of judgment; I do not think we ought to pay less than six per cent. in order to make the stock reasonably attractive and keep our credit up.

Q. And that would make the earnings on the investment not less than 12 per cent? A. Yes, it would make the earnings on the stock not less than 12 per cent., and that would be less than 12 per cent. on the investment. It has been frequently stated that it has been the policy of the Pennsylvania Railroad to put one dollar into the property for every dollar of dividends paid, and I think that is a very modest and very excellent plan.

Q. Are we to understand that the stock of the Santa Fe is less than the investment, from your statement? A. I said that six per cent. on the stock would be very much less than six per cent. on the total investment.

Q. Yes, I understand. Now in addition to what you stated this morning about the increase of wages of employes, what have you to say about the cost of material entering into use

by the railway company? A. Well, in the last ten years the cost of material has not very much enhanced. The additional cost to the railroad is more in the line of more material and better material than in the mere cost of it. And if you will go back 20 years or even 15 years, there has been a very marked increase in price, but for the last 10 years prices have not been vastly increased per unit. But a car that we used to pay $800 for ten years ago we are paying $1,200 for now. It is not the same kind of a car, it is a very much better car. And the same thing runs through almost everything we do, we are obliged to furnish a better article. The only thing that has very largely increased is the matter of ties, and those have increased enormously and will increase still more enormously in the immediate future. In fact five years from now I do not know exactly from where we are going to get our ties, any of us.

Q. Have you been making provisions for ties in the future? A. We own a large amount of tie timber on the stump lands which we have will take care of us for some years, and we are planning additional forests to take care of us hereafter.

Little Increase in Car Load.

Q. Referring to the larger cars and the better cars that you have mentioned, do they carry relatively a heavier paying load than the old cars carried? A. Theoretically they do.

Q. Practically? A. Practically they do in some cases, but in a great many cases they do not, because we have a great many light lines, a great many light branches, where there is not enough business to load the cars fully; and in fact on all our lines there are a great many classes of business where you cannot load to maximum load, so that the increased tonnage per car we get applies only to our main lines, and then only to certain portions of our tonnage. It is a doubtful question whether it is wise or has been wise to increase the average size of our box cars beyond possibly 80,000 pounds, because there is so much of the time that we have to haul the extra dead weight without any additional load.

Q. And as a matter of practice has not the minimum in one instance or another been reduced? A. It has.

Q. Either through the demands of the shippers or through regulations? A. Not so much, as far as the Interstate Commerce Commission is concerned, but by the various States,

yes, very largely. The practical unit of sales as to many items is the carload, and there has been a great indisposition on the part of the shipping public to increasing the minimum carload, so in many cases we are obliged to use a car which will carry 80,000 pounds for a 25,000 or 30,000 pound load.

Q. That is true on the main line, while, as I understand you, on your branch lines these so-called economies never have been in effect? A. Well, only to a limited extent.

Q. Is that all you care to say about the question of material and its cost? A. Nothing else occurs to me.

INCREASE IN TAXES.

Q. Now as to taxes in the past and in the future, has there been an increase in your burden in that respect? A. A very great increase. Our taxes are 100 per cent. greater than they were 15 years ago. I do not know exactly what that figures per mile, I do not know that we have any statement, but there has been a very large increase and it is constantly going on.

Q. What recent increase in taxes has been notable? A. As I recollect it, our taxes for the fiscal year just ended the 30th day of June last were—what was that increase Mr. Bailey? You have it there somewhere. I think it was $400,000, but there was a very large increase in our taxes for the year.

Mr. BAILEY. It was $250,000 on account of the income or corporation tax.

Mr. RIPLEY. The corporation tax alone amounted to $250,000 and then—

Mr. NORTON. The taxes on the Atchison proper of the system in 1910 were $2,582,554.71? A. Those are not the System figures, are they?

Q. That is the Atchison proper. A. Have you them for the System?

Mr. BAILEY. I would be glad to give them to you when I find them.

Mr. RIPLEY. I have it in mind that our taxes last year were $400,000 in excess of the year before, which were larger than they ever had been before that; but I will not vouch for those figures.

Mr. BAILEY. For the year before they were $3,000,000 for the entire system.

Mr. NORTON. The taxes for 1909 were $3,000,000 for the entire system.

Mr. BAILEY. You are safe in saying $400,000, because there was $250,000 for the corporation tax.

Mr. RIPLEY. I think it was $250,000 besides the corporation tax, but we will furnish that information later.

(NOTE: System taxes for 1910 amount to $4,006,418.83.)

EXPENSES OF REGULATION.

Mr. NORTON. In addition to this increase of tax burden, what others have you in the way of safety appliances and expenses of regulation, and so forth? A. Well, safety appliances are demanded by the public and they are demanded by the Interstate Commerce Commission. I have no quarrel with that, we are just as anxious to furnish them to the extent of our means as anybody is to have us furnish them. Our expenses of regulation or what you might call our expenses of being regulated by thirteen States and the National Government are very large. I do not know that I can make an accurate estimate of the amount. It probably costs us $150,000 a year to be regulated.

Q. Those expenses have been increasing and are now increasing? A. All the time.

Q. Do you want to say anything about your preparation for putting in block signals, or have you mentioned all you care to in that regard? A. Well, we have a very large amount of block signals and we ought to have them over all of our main lines. We hope to have them some time if we earn money enough.

Q. Of course it goes without saying that the money that you have borrowed from time to time has entailed a larger expenditure by reason of interest, your interest charges? A. Yes, sir. Would it be desirable to make a statement as to the money which we have received, that we have borrowed in the last fifteen years? I say fifteen years because that is the time the present company took hold of the property. I think we have a statement showing the amount of money that has been borrowed and what has been done with it. I guess I have it here. I think this is it.

Our property investment in 1896 was in gross figures $372,000,000. It has grown until at the close of 1910 it was $579,000,000 plus, practically $580,000,000.

The income applicable to bonds, interest dividends, and ap-

propriations for improvements has grown from $2,432,000, in round figures, in 1896,—that is half the year, however,—say it has grown from $6,000,000 in 1897 to $32,000,000 in 1910.

And the per cent. of income to the property investment has grown from 1.57 in 1897 to 5.58 in 1910; and in no year has it exceeded 6.30.

Q. That 6.30 was in the year 1907? A. Yes.

Mr. Thorne. Pardon me, but I did not quite get the income for 1910.

Mr. Ripley. You mean the income, 5.58 per cent.?

Mr. Thorne. The total amount is what I refer to.

Mr. Ripley. The total amount is $32,000,000, as I read it; it is $32,000,000 plus.

Mr. Norton. The witness is reading from Santa Fe Exhibit 1.

Mr. Thorne. Oh, I thank you.

Mr. Norton. Only twice in the fifteen years you speak of was 6 per cent. reached? A. Yes, sir.

Q. That is the return on the investment, not dividends; the return on the investment. I think that is all, unless you have something additional to say. A. I think of nothing else, so far as I am concerned.

Examiner Brown. Is there any cross-examination?

Cross-Examination by Mr. Atwood.

Mr. Atwood. Mr. Ripley, what was the last issue of bonds authorized by the directorate of your company? A. February or March last.

Q. What were the bonds styled that were authorized to be issued in June, 1909? A. In June, 1909, it was a convertible bond.

Q. What was the designation given to the more recent authorized bonds, if any were issued? A. That was also a convertible bond.

Q. And what were the bonds issued last before the convertible bonds issued in June, 1909? How were they denominated? What name was given to them? A. I think they were transcontinental short line bonds, were they not (addressing Mr. Bailey), that were issued last before that?

Q. Well, Mr. Ripley, if you do not know, simply say so. You are the only witness now being examined. If it is a fact that you do not know that is all I desire you to say.

Mr. Norton. He can ascertain in a moment.

Mr. Atwood. I do not desire him to translate upon the witness stand under oath information transmitted to him by his assistants.

Mr. Ripley. It is a matter of statistics.

Q. Very good. A. I cannot recall always just the date of the issuing of the bonds.

Q. I have no fault to find with you, if you do not know I simply wish to know that fact. Now, these convertible bonds, as I understand it, are convertible into stock at par? A. Yes, sir.

Q. What was the provisions governing the issue of the June, 1909, bonds, with relation to the per cent. above or below par at which the stockholders might receive them pro rata? A. They were offered to the stockholders at 102 and interest.

Q. Are you sure it was not 104? A. Are you speaking now of the last issue?

Q. No, I am speaking of the issue of June, 1909. A. Oh, 1909, I think it was 104.

Q. And some were taken? A. Largely taken by the stockholders.

Q. Do you know the market value at which they stand now? I ask that with a view of giving the Commission and the Examiner some information of the standing and credit of your company. A. I think it is 107.

Q. You would not be sure it was 108 and a fraction? A. No, I would not.

Q. How about the other convertible bonds, say the fifty year convertible at June, 1955? Do you know how they stand in the eyes of the public? A. I think I do.

Q. Give us approximately the amount at which they sell? A. About 101 or 101½.

Q. Fifty years convertible, that is, June, 1955? A. Yes, sir.

Q. You are quite sure they did not sell last May at 111 and a fraction? A. I am quite sure that those bonds did not, no, sir.

Q. Very well, we will have to criticise Mr. Finley Barrell & Co. in their citations and quotations. Next after the ten years convertible, June, 1917. Do you know how they stand in the eyes of the purchasing public or how they stood in May, 1910? A. Issued in May, 1910?

Q. No. A. When were they issued?

Q. They are described on the market as ten year converti-

ble due January, 1917. That is the designation in the bond broker's list. A. I cannot answer your question. I do not know what the market value is of them. I do not keep posted on market values very much.

Q. If it was 113 and a fraction, the fact that one of your sets of bonds sold at 108, had to be sold under the directorate provision at 104, and the other sold, or stood in the market May last at 111, would that, in your judgment as a financier, indicate that the credit of the company was injured by the situation? A. It would indicate that as to those particular bonds into which a certain gambling speculative element enters, were selling at a good price.

Q. I regret to think that your railroad even in a remote degree lends itself to gambling interests. A. Whereas our first mortgage bonds are selling at 98, which are much better security.

Q. You said 98. When was the quotation 98 as you noted it? A. Why a few days ago I saw it.

Q. Do you remember what they were in May last? A. I do not.

Q. Would you quarrel with the statement that they were then 99¼? A. No.

Q. As I understood you this morning, you said that the reason for the difference between the convertible bonds and those that you quote at ninety-eight and a fraction, was the convertible characteristic that they possessed? A. Yes.

Q. That characteristic, as I understand you, is simply that the holder of those bonds, who is also a holder of the stock, can in a certain ratio transfer the bonds into the stock? A. He has the right at certain times to transfer all the bonds he holds into stock.

Q. Prior to 1918? A. Yes, there are certain limitations.

Q. And you said that gave, as I understood it, an additional value to the bonds? A. Yes.

Q. Would you draw from that, speaking as a financier and a man dealing in large financial matters, would you draw from that fact the suggestion that the public, at least has as manifested by your stockholders, had less confidence in the stock than in your bonds? A. No.

Q. You would not draw that? A. No, I would not.

Q. Then the factor, the characteristic of the bonds that gives them a peculiar value, is the fact that they may be converted into stock? That fact, and the fact that they are readily taken, does not to your mind indicate as such or intimate

a want of confidence in your stock as much as in those bonds? A. No, sir. Would you like to have me say why?

Mr. Norton. Yes, explain.

Mr. Ripley. The man who buys the bonds—

Mr. Atwood. Wait just a moment.

Mr. Norton. I want the witness to explain.

Mr. Atwood. When you desire to re-examine him, it is your privilege to have him answer any question that has been propounded to him on cross-examination.

Mr. Norton. It is my privilege to have him explain any question that he is asked now.

Examiner Brown. Let him answer and then explain. Have you answered, Mr. Ripley?

Mr. Ripley. The reason those bonds command a higher price than our first mortgage bonds, although they are a subordinate security, is that a man is assured,—so long as the company's credit is maintained,—he is assured of a 4 per cent. return on his investment, and he has the possibility of a speculative rise in the stock, which may enable him to sell out at a profit.

Q. What proportion of them bear 5 per cent? A. There is a small issue, I have forgotten now the amount, that bears 5 per cent. interest.

Q. So the fact, to recapitulate and to set ourselves straight on the record, or at least let me follow you so I may not be misled in anything you say, is this: You think that the convertible characteristic is no indication of the confidence the public may have in your stocks, even though that conversion does take place? A. I didn't say that.

Q. All right. A. I did not mean to be understood as saying that. I don't think I did say it. I said a man who had a reasonably sure bond return of four or five per cent. and had in addition the possibility of being able to exchange it for stock that is now paying six, had that large gambling chance of making some money; therefore he paid more for the bonds.

Q. How about the conversions? What has taken place in the way of conversions? A. During the last year there has been quite a large amount of our convertible bonds exchanged for stock.

Q. That gambling element was an element so far as an increase took place in the buying of stock? A. When the stock sold at 120 the opportunity that the convertible bondholder had been waiting for, occurred.

Q. And the stock did sell at 120, when? A. Last winter.

Q. Is that sale of 20 per cent. above par to your mind as a financier any indication of the public confidence in your stock? A. It indicates that the public or a portion of the public had confidence at that time.

Q. What is the stock selling at now? A. About 97 or 97½.

Q. Are you sure about that, or simply speaking from recollection of what sales you have knowledge of? A. I have not been present when any sales were made.

Q. I understand, but you study the quotations, I take it? A. The daily quotations indicate about 97½ or possibly 98.

Q. When was that quotation from which you derived your recollection stated? A. I think last night or the night before.

Q. With relation to the intake and expenditures of your road, one of the items of expenditure as I understand it, and you will set me right if I am wrong in any of my suppositions, is the maintenance of way and structures. A. Yes.

MAINTENANCE OF ROAD.

Q. What is the policy of your company with regard to expending sums sufficient upon the maintenance of ways and structure so as to leave them substantially at the end of the fiscal year in the same physical condition they were at the beginning thereof? A. Our policy has been to expend all of our surplus earnings in that direction and practically as much more as we can borrow safely.

Q. You will pardon me, but that does not quite answer my question. The question was whether or not it was the policy of your company to expend sufficient upon maintenance of way and structure so as to leave them at the end of the fiscal year in substantially as good physical condition as they were at the beginning. A. We should be very sorry if we did in any fiscal year only as much as that, only to leave them in as good condition as they were, because if we had pursued that policy for the last 15 years we could not have held ourselves together at all.

Q. Am I to infer from that answer that you not only do expend sums sufficient to maintain them in as good physical condition, but to leave them in better physical condition at the end of the fiscal year than they were at the beginning? A. Certainly.

Q. So that the property does not deteriorate? A. We hope not.

Q. So then when $5,708,000 was expended in the fiscal year ending June 30th, 1909, sufficient sums were expended that year to leave your physical property in as good or better condition than it was at the beginning of that year? A. I have made my remarks general and not specific. When you ask about the year 1909, I should say yes. There have been some years however when I do not think we quite did that.

Q. Of course, we cannot take every one of the years, so I took the one most recent, because as I understand it, Mr. President, you have not in print your annual report of 1910. A. Not yet.

Q. I suppose it is in manuscript. A. Well, yes, all the necessary figures are in manuscript.

Q. And are of course available to you? A. Yes.

Q. Will you be good enough to produce them here before the Examiner, so we can have an opportunity to inspect them? A. Well—

Mr. Norton. They are not ready for issuance to the public, are they? A. It is not quite ready for issuance to the public.

Mr. Atwood. It just occurs to me that the President of the company might be a better judge than even his counsel as to whether or not the papers appertaining to his company are ready for exhibition. A. My hesitancy is due to the fact that I do not think the figures are ready for issuance to the public. But any information on that point that is wanted by you or the Examiner or anyone else will be cheerfully forthcoming.

Q. Your gross income and revenue? A. In round figures it was $105,000,000.

Q. By the way, you said any figures that are available would be forthcoming. A. Yes.

Q. But do I infer from that that you do not know now what those figures are? Your gross earnings you have already stated, so that is forthcoming. A. Yes.

Q. And sums expended for maintenance of way. A. I do not know that the maintenance of way expense has been absolutely put into figures as yet and corrected.

Q. How about equipment, A. The same is true of equipment. I think we can give them before the hearing is over.

Mr. Norton. The Auditor tells me they are not all made up.

Examiner BROWN. They are generally required to be in about 60 days from the 1st of July, are they not?

Mr. NORTON. October 1st.

Examiner BROWN. They are required to be on file with the Commission by October 1st. I do not know whether the figures are in such shape that they can be used before that time or not.

Mr. RIPLEY. I think so.

Examiner BROWN. If they are, you will kindly furnish them.

Mr. RIPLEY. I will.

Mr. ATWOOD. Will you indicate a time when you will direct your subordinates to furnish them to counsel? A. If you will indicate what you want.

Q. Gross earnings and gross expenditures, the differentiation of your gross expenditures into expenditures for maintenance of way and equipment, and sums paid for interest and dividends; in other words, so far as your figures disclose those things required by the statute governing such matters for the direction of the Interstate Commerce Commission. A. We will furnish them before the hearing is over.

Q. That is a little indefinite, since I think none of us know just how long it will take. If they are all ready, would there be any harm in asking you to furnish them tomorrow? A. No, there is no objection, with this qualification, that those figures are liable to slight corrections; they will be substantially correct, but the whole business has not been checked up yet and they are liable to certain corrections which we may want to make later.

Examiner BROWN. You will file them subject to the qualifications that they are substantially correct subject to checking and correction later on?

Mr. RIPLEY. The corrections will be very slight.

Mr. NORTON. The main point is that the independent auditors are now working on them, the Independent Auditing Company which looks over our figures after our own auditors are through with them. They are not through with the computations. You can have most of them.

Mr. ATWOOD. All right I will be greatly obliged to you and your President for replying to our request.

How much of the item appearing on page 6 of your annual report for the year 1909 which indicates as follows: Appropriations for additions and betterments expended during the year, meaning of course the year ended June 30th, 1909,

for, of course, additions and betterments, $4,000,000—was that maintenance of equipment and maintenance of way, or was it an additional expenditure? A. It was additions and betterments as is stated there in distinction from ordinary maintainance expenses. That is for the class of expenditures that I testified to this morning; that is the class of expenditures that ought not to be capitalized, the expenditures that are in the border land as you might say between operating expenses and capital expenses.

Q. Do you count that when made those investments when made, as part of your assets? A. Not in figures no. We do not.

Q. How are they kept upon your books if they are not carried to capital account? A. They are written off.

Q. Written off? A. Written off to cost of property.

Q. Then those are sums of money taken from your revenue used in a way that seems to you good and then as you say written off or eliminated from your bookkeeping entirely? A. Yes.

Q. But it is paid for, but whatever your bookkeeper may do with it, and it is paid for out of the revenues of the company? A. Oh, yes.

Q. Then this $4,000,000 you expended for betterments and additions is a sum quite apart from the $12,000,000 that you expended for the maintenance of ways and $13,000,000 and odd that you expended for the maintenance of equipment that year? A. That is so.

Q. So that those millions, the $12,800,000 odd expended for maintenance of way, and $13,900,000 and odd expended for maintenance of equipment, together with this $4,000,000, are sums taken from your gross earnings that year? A. Yes.

Q. Now, then, I find here an item, Reserve for Future Expenditures, $5,000,000; that was the creation of a fund during that year or at least at the end of the fiscal year 1909 of $5,000,000? A. Yes.

Q. Does your recollection serve you as to what amount was devoted to a similar fund or to the same fund in the fiscal year prior, 1908? A. No, it does not.

Q. You do not recollect? A. I can answer your question from the reports.

Q. I understand, and perhaps it would be more expert than you would be, consequently we will leave it to your accountant, if he desires to testify upon that point. Does your recollection serve you sufficiently so you know whether the amount

is approximately the same or more or less? A. I do not recollect what the figures were.

Q. Well, even approximately?

(Mr. Norton here hands witness paper.)

Mr. Atwood. Mr. Counsel, please do not hand the witness any papers until he asks for them.

Mr. Norton. He has a right to refer to the annual reports.

Mr. Atwood. If he made them, yes. The report you have in your hand, did you compile it yourself?

Examiner Brown. It is sworn to and required by the statute to be on file with the Commission, and it is evidence. Proceed.

Mr. Atwood. But, Mr. Examiner, if it is evidence, it is not necessary for him to read it in the record. If they desire to present testimony that is sworn testimony and documentary testimony it is for them to present it if they desire, and it is entirely within the proprieties for me to test the recollection of the witness as to the matters and things over which he has chief dominion, and I think I have a right to do so without his assisting his recollection from evidence that is not in the record.

Examiner Brown. Proceed.

Mr. Norton. I do not think he has a right to do anything of the sort. I think the Commission has repeatedly allowed us to refer to annual reports. You are using one there, and now you ask what he did in 1908, and I hand him the annual report for that year—

Mr. Atwood. Counsel is unfortunate in his powers of recollection. What I said is what was your recollection with relation to these things.

Mr. Norton. And the Commission has said that it is next to nonsensical to ask a man to remember such a thing.

Mr. Atwood. Perhaps it is true, although I doubt if the Commission ever adopted the unhappy phraseology my friend employs, because the Commission is composed of gentlemen—

Examiner Brown. Well, we are not getting anywhere, let us proceed.

Mr. Atwood. What I desire is to be permitted to test the recollection of the witness in these generic ways. Of course I am not asking for figure details, but I have a perfect right to ask if he recollects these things.

Examiner Brown. And he has a perfect right to say that he does not. Proceed.

Mr. Atwood. Now then, aiding your recollection by the contraband that is in your hand, tell us what the fact is as to the amount that was devoted to this fund that in 1909, for the fiscal year ending June, 1909, was $5,000,000 of reserve for future expenditures? A. There was $340,000 written off for additions and betterments; there was $975,000 written off on account of discounts on bond sales and other expenses there was $618,000 written off on account of grade revision work, being for line abandoned—

Examiner Brown. What is the total?

Mr. Ripley. The total is in round numbers $1,800,000.

Mr. Atwood. As I heard you read, Mr. Witness, you speak of charging off. You would hardly charge off anything until there had been some disposition made of the fund that we are considering, would you? I am talking about reserve set aside for future expenditures, that is the way you describe it in your reports. Now, I ask you what was the amount that you set aside under that designation for the fiscal year 1908? A. Nothing.

Q. Nothing at all? A. No, sir.

Mr. Norton. Is that the reason you did not want him to get the book?

Mr. Atwood. I am not at all sure that is the fact. Since the infirmities of your witness' recollection are such that he has to refer to documents, it makes me think he may be possibly mistaken after all. Have you any recollection as to what if any sums were set aside for a similar purpose the year before? A. I have not.

Q. The $4,000,000 expended for betterments and additions, this $5,000,000 fund set aside—and, by the way, have you any recollection as to what was done with relation to this heading, what disposition of any fund was made as to making an addition for this year 1910, or have you no recollection? A. There has been nothing done about it as yet. The income for this year is subject to future action of the Board. That will appear when the report is made out.

Q. Is there any time created by the customs of your company as to when the disposition is made of the funds resultant from any year's operations? A. September of every year.

Q. In the coming month it will be determined what if any portion of your gross revenues will be set apart for that fund? A. Yes.

NOT FUNDS ENOUGH.

Q. Have you in mind any purpose you may have in that regard, since the funds are already in your possession? A. We have purposes already for many times the amount available.

Q. That is the unfortunate fate of all of us; very few of our incomes equal our desires. But the question is whether or not you have in mind any particular sum you think will be set aside out of gross revenues of your company under the head "reserve for future expenditures?" A. There will be a very small amount to set aside, there will be about $2,500,000 to set aside.

Q. Is it the purpose of the company to so dispose of it? A. I cannot answer until the directors have acted on it.

Q. But as you understand the purposes of the board— A. I do not care to forecast the action of the board.

Q. Very good, I recognize the modesty which actuates your answer.

This fiscal report for the year ending June 30th, 1909, discloses, as I read it, twenty millions and more of dollars that were devoted to the paying of dividends on preferred and common stock, $4,000,000 for betterments, and $5,000,000 for the reserve to be expended in the future; and those items, of course, are exclusive of any interest that was paid upon your bonded debt. A. If you have read your figures correctly, yes.

Q. I have tried to read them correctly and simply name the items rather than to expect you to recall the amounts. A. Yes.

Q. So that these sums for dividends for common stock and dividends for preferred stock, $4,000,000 for betterments, and $5,000,000 for future expenditures, were sums extracted from the gross revenues of your company in addition to the interest on the bonds that was paid? A. Yes.

MORE ABOUT VALUE OF SECURITIES.

Q. Now, you mentioned perhaps on more than one occasion during your testimony, that something less or perhaps a bit more than 6 per cent. had been the result of the earnings of the company for a series of years. A. I did.

Q. Including of course the bonded indebtedness. A. Yes.

Q. Since your bonded indebtedness, with the exception of this small issue of 5's which you spoke of a half hour since, only calls for 4 per cent., it would hardly be expected that

you would force upon your bondholders a greater rate of interest than that nominated in the bonds? A. We have no such intention.

Q. Consequently the fact that you have been able to float, as you have, and carry on the market at least a portion at 110 or 113 of those bonds, all of which but a small portion bear 4 per cent. interest, is that to your mind as a financier dealing in large matters, in any wise indicative of the credit of your company? A. It indicates that at one point of our history our credit was very good.

Q. Do I understand you desire now to be understood as saying that the credit of your company is at a low ebb? A. The market would indicate it is not as good as it was.

Q. And you speak of it now—I am now asking your opinion based upon any knowledge you may have derived from the market, or your knowledge of the management of your company and the condition of its property, whether or not you consider that it is entitled to much or little credit. A. In order to answer that question I should have to be gifted with more foresight than I feel that I have. It depends a good deal upon what is done with us by the public.

Q. Now, then, the stocks during the fiscal year ending June 30th, 1909, received dividends, 5 per cent. each, both preferred and common stock? A. Yes.

Q. The interest on all the bonds was paid, that is a fact, is it not? A. Oh Yes.

Earnings and Expenditures.

Q. And these expenditures which I have adverted to have also taken place. Now, then, do you recollect how the gross or total operating revenue—to employ the phraseology of your own accountant—how they compare in 1909 with 1908, as to whether they were greater or less? A. 1909 and 1908?

Q. 1909 with 1908. A. My recollection is they were considerably larger.

Q. Do you recollect how the expense— A. My recollection is they were not larger per mile. We had more mileage, however.

Q. It will be time enough to take up the miles when we get to them; it is a pretty large proposition to take them all at once. Whatever it is per mile, you have to have the gross anyhow. A. Yes.

Q. So that is one of the factors proper to be dealt with? A. Yes.

Q. I suppose you would not quarrel with your own accountant's figures, if they stated in 1909 there was a gross operating revenue of $94,265,000 as against $90,617,000 the year before? A. No.

Q. Now, do you recollect how the expenditures embraced in your own terminology, expenses, including taxes, rentals and other charges—and I take it that includes all the expenditures of your company apart from dividends and extra expenses we have been talking about? A. Yes. But what is your question?

Q. The question was whether or not these expenditures described in your report as expenses, included taxes, rentals and other charges, were intended to cover all expenditures except the dividends and those sums expended for betterments and reserved for betterments? A. They are.

Q. So, then, all expenses except those four are included in the term "expenses, including taxes, rentals and other charges?" A. Yes.

Q. Do you recollect whether or not those expenditures were greater or less in 1909 than they were in 1908? A. They were greater.

Q. Are you quite sure of that? A. Well, I think they are. I am not sure.

Q. Of course you can only speak from recollection. There is no question, is there, in your mind, that that is an authentic document? (Handing copy of Annual Report)? A. I should think not.

Q. The fact that it bears in print "compliments of E. P. Ripley" would indicate that somebody at least thought that you had something to do with it? A. Yes.

Q. If upon page 6 of that report bearing the legend "Compliments of E. P. Ripley," and having for its title page, "The Fourteenth Annual Report of the Atchison, Topeka & Santa Fe Railway Company for the fiscal year ended June 30th, 1909"—if on page 6 of that report we find the following expenses, including taxes, rentals and other charges for 1908, $65,031,000 and in 1909, $61,458,000, would you be constrained to the conclusion that the expenses for the year 1909 were less than they had been for the preceding year? A. I should.

Q. Then if I understand you, your interpretation of this report is that in 1909 the gross revenues exceeded those of 1908 by the difference between ninety-four and one-quarter million dollars as against ninety and three-quarter million dollars, while the expenditures of that same year were some-

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thing like three and one-half million dollars less. If you desire to refresh your recollection by looking at the figures, it is your privilege. A. That is all right.

Q. Then that is a fact. A. That appears to be demonstrated.

Q. I will ask you, speaking as a railroad man of extended experience, whether or not when a railroad's gross revenues increase from one year to another while that same company's expenditures decrease in the same year that the gross revenues increased, whether or not that is an indication of a healthy or an unhealthy condition from a commercial, a transportation, or a railroad standpoint? A. It depends entirely how much money they spend and how much they ought to have spent.

Q. Is that the only answer you can give to the query? A. Yes.

Q. And the only one you are pleased to give? A. No one can answer that question intelligently without knowing what money was spent and what for.

Q. But nobody knows better than E. P. Ripley how the moneys of the Santa Fe were expended in that year? A. Possibly not.

Q. In a general way. A. In a general way.

Q. They were honestly expended, were they not? A. I hope so.

Q. And expended to the very best of the ability of yourself and your directors and your subordinates? A. I think so.

Q. And in whom you had confidence? A. Yes.

Q. Speaking in the light of your knowledge of those expenditures, which you say is the determining factor in permitting you to conclude whether or not the railroad is in good or bad condition when its revenue increases and expenses decrease, please answer the question in the light of your knowledge pertaining to this road you are President of? A. I have already said that on the face of the returns that would indicate a very healthy condition.

Q. Do you know anything behind the returns which indicates otherwise? A. I know we did not spend as much money in 1909 as we might and ought to have spent.

Q. In 1909 you expended $4,000,000, that was for betterments and additions; you expended sufficient sums for the maintenance of way and equipment to keep your roads in as

good a condition and leave them in better condition than they were at the beginning of the year? A. Yes.

Q. Now then the expenditures you have in mind that should have been made are of what nature? A. They are of the class that I testified regarding this morning, the class of expenditures that are strictly in the nature of improvements but which ought to be paid for out of revenue.

Q. You spent $4,000,000 for that? A. Yes.

Q. What points on your line demand expenditures in excess of $4,000,000, or did in that year, of the character you speak of? A. I could not name them, but there are scores or perhaps hundreds of them.

Q. In other words, you could spend money to put your road in better condition than it now is or in which it was at the end of the fiscal year 1909, is that it? A. We need to spend money for a thousand and one things that the public demand of us and which we cannot give at the moment.

Q. And as you compute the duties of a carrier, is it that there shall be exacted from the shipping public or the freight paying public sums sufficient to maintain your ways and your equipment in better condition at the end of each year than it was at the beginning of that year, and in addition to that spend several millions of dollars in additions and betterments, and set funds aside to the extent of $5,000,000 for expenditures in the future, for which of course you cannot now state what it will be, and pay interest on all your bonded indebtedness and a dividend of five per cent. on preferred and common stock, and still think that there should be further sums exacted from the freight paying public? A. I do, most decidedly.

Q. Now, then, is that conclusion at which you so readily arrive due to the fact that you do or do not consider the cost of transportation as a factor of any moment whatever? You spoke of it lightly this morning, but still gave it some consideration. A. I did.

Q. The cost of transportation? A. Well, I do not know that I understand your question. Will you please state it again.

(The question was then read.)

Q. My question is rather long and involved and stiltedly framed. A. You have taken there one of the most prosperous years we have ever had, and have taken all the items that went in to favor that side of the case without any of the others. It is true we had last year a surplus over and above

dividends of about $9,000,000 which we appropriated. This last year we will have less than $3,000,000 all told, and in previous years we have had even less than that. Now the service that we are expected to render requires the constant addition to our plant by the use of very large amounts of money. We cannot get it all by selling bonds. Where are we going to get it?

Q. Well, it just occurs to me, if you propound to me the query that it is hardly the correct thing to exact from the shippers a fair return to you for the service you perform and in addition make him pay to build you new railroads; but since I am not on the witness stand my answer of course is of little avail. Now then—

Mr. NORTON. Why should he not build new railroads, if he wants him to?

Mr. ATWOOD. We would be very glad to have him do so, but do not want him to rob my clients to do it.

Mr. NORTON. I say why should not the shipper have new railroads if he wants them?

Mr. ATWOOD. They should, but it should come out of capitalization and not out of earnings.

You were good enough to say that I quoted certain figures from an extra good year without disclosing other things on the other side of the ledger which were not as favorable. Will you be good enough to turn to any portion of your reports which militates against the conclusion which you have been obliged to draw? A. I do not think that report covers the figures of previous years in sufficient clearness to enable me to do that.

Q. Very good, I am quite sure that is true—1908 and 1909 are the only years covered. A. Yes.

Q. But it is a truthful portraiture of the condition of the road at the end of the fiscal year, 1909, that is true, isn't it? A. Yes.

Q. And during that year these sums of money were extracted taken from the gross revenues? A. Yes.

Q. And in that year, at least the earnings, the gross earnings, were several millions of dollars more and the total expenses several millions of dollars less than they had been the year preceding? A. That is true.

Q. You spoke of that being a banner year; how about your year 1907? A. 1907 as I recollect it was a good year.

Q. That is a sort of double banner year? A. That is, the year ending June 1907, was a good year.

Q. Since you have been pleased to find fault, if that is not too harsh a term, with the selection of the year 1909, supposing we select the year 1907, and contrast it with its predecessor. A. 1907 was a very good year.

Q. An extra good year? A. Yes.

Q. Now, Mr. Ripley, have you sufficient recollection to enable you to say whether you would be disposed to quarrel with the statement I have in my hand and which is transcribed from the reports of the Interstate Commerce Commission, that discloses that in 1907 the gross revenues over the preceding year was that difference that lies between forty-seven million seven hundred thousand odd dollars, and seventy-six million six hundred thousand odd dollars? A. No, that is wrong.

Q. That is wrong. Have you figures before you that you can depend upon, bearing upon those two years? A. I can give you the net—

Q. I am speaking of the operating revenue, that was the designation or heading dictated by order of the Interstate Commerce Commission, which your road had to fill out, and did, and filed with the Commission, and which I think is here transcribed correctly. Of course there is a possibility of mistake. A. Are you talking about gross earnings now?

Q. I am talking about what is designated as operating revenues. Of course you as a railroad man know what that is better than I do. A. That is gross earnings and I haven't it. But our largest net income took place in the years 1907 and 1909. Our net income, which, after all, is what tells the story, was in 1907, $32,724,000, and in 1909 $33,523,000. Those were the net income figures. I think possibly you have become a little mixed by taking Interstate Commerce returns there because we report separately to the Interstate Commerce Commission the various divisions of our line, and then we have our own figures.

Q. This is headed, "Atchison, Topeka & Santa Fe Railway Company," which I apprehend is the corporation proper as contradistinguished from what you call the System? A. Yes.

Q. I would ask if the figures which you have before you are System figures or Railway figures? A. They are railway figures.

Mr. Lyon. I want to call attention to the fact that the figures which you were reading were system figures.

Mr. Atwood. I am very glad to be set right on that. I was simply being governed by what I saw at the top of it. These figures, you say, are wrong, and we will read them again for the purpose of being set right if we can be, because we both, I am sure, want to be right. They disclose that in 1906 the operating revenues—and let me pause to ask what, as you understand railroad bookkeeping, what operating revenues cover, gross revenues? A. Gross revenues.

Q. From operation? A. Yes.

Q. Of course that don't include any outside matters like income from land or anything like that? A. No

Q But all that is derived from the operation of your road, the carriage of mails, express, passenger and freight is covered by the heading, "operating revenues"? A Yes.

Q. Now, as my transcript shows, in 1906, those operating revenues, or gross operating revenues were represented by the figures $47,700,000 odd dollars. A. That is wrong.

Q. And in the year 1907 it is $76,000,000 odd dollars. A. I do not know what those figures refer to but they do not refer to system earnings at all.

Mr. Bailey. I think probably if the gentleman will permit me to straighten him out, I can do so. Formerly the Atchison, Topeka & Santa Fe Railroad operated east and west of Albuquerque. It is known now as an operating system east and west, the main line being divided at Albuquerque. Formerly the lines west of Albuquerque consisted of the Atlantic and Pacific, Southern California and San Joaquin Valley lines. Those were added to the Atchison Company, and for a year or two after they were bought and became part and parcel of the Atchison, Santa Fe & Topeka Railway Company the reports to the Interstate Commerce for the lines west thereof were made independent of the lines east thereof, and I think a combination of those years will straighten you out as to that wide difference.

Mr. Atwood. Have you before you the figures of the gross income of the system for the years 1906 and 1907? A. No, I have not. I have the net.

Q. Now, can you—

Mr. Norton. We will have those in the morning.

Mr. Atwood. Can you look at this transcription and determine from that what portion of your system is covered by those figures?

Mr. Bailey. The Atchison consists of five or six lines of railway.

Mr. Atwood. Have you figures there pertaining to 1906 and 1907?

Mr. Bailey. Yes.

Mr. Atwood. Would you be good enough to let me look at them? It will save taking up again in the morning.

Mr. Lyon. Do you want the mileage of the Atchison?

Mr. Atwood. No, the gross revenues for 1906 and 1907.

Mr. Lyon. I can give you any information you want, from the figures that the Atchison has filed with the Interstate Commerce Commission.

Mr. Norton. Will you speak a little louder, Mr. Lyon, I cannot hear you.

Mr. Lyon. I say I can give you any information as to the gross earnings for the Atchison Road as filed with the Interstate Commerce Commission, and also the gross mileage.

Mr. Atwood. What I want is the gross revenues of the Atchison.

Mr. Lyon. The gross revenues, the operating revenues, not including the Coast Lines for 1906 were $47,758,906.

Mr. Atwood. Will you repeat that again?

Mr. Lyon. $47,758,906.

Mr. Norton Not including the Coast?

Mr. Lyon. *That does not include the Coast Lines,* for 1906.

Mr. Norton. Mr. Ripley was giving the figures for the system.

Mr. Atwood. I am not quarreling with the witness. How about 1907?

Mr. Lyon. I think we have the accurate information reported by the road For 1907, *including the Coast Lines,* apparently according to the statement made here, the operating revenue was $76,639,368.

Mr. Ripley. That includes 1,500 more miles in one case than it did in the other.

Mr. Atwood. Do you know or have you before you, or will you indicate the designation—

Mr. Lyon. I will state for your information that that includes 1,900 miles of trackage, additional trackage.

Mr. Atwood. Reading from the book entitled "The Annual Report of the Atchison, Topeka & Santa Fe Railway Company, 1906 and 1907," that was so courteously furnished me by your associate or assistant, it seems to me that the figures —let me see if we read them together aright—the earnings from passenger, freight, mail and so forth, shows in 1906 $76,044,000. A. $78,000,000.

Q. $78,000,000, yes; while in 1907 those same earnings, that is, earnings for those same items, freight, passenger mail, express and so forth— A. Yes.

Q. Shows a total of $93,000,000 as against the $78,000,000. This is the system and the others are the system. A. They include a great deal more road

Q. Now, do I understand that there was included under the name "Santa Fe System" more miles of line in 1907 than there was in 1906? A. Yes, sir.

Q. Is there here in this book a differentiation so that you can show that? A. I think so.

Q. So that you can show what the contrasted earnings were of 1906 and 1907 for the portions covered by 1906 in this book? A. No, but I think the best way to get at that would be the earnings per mile. That will tell the whole story. The mileage increases year by year and of course the gross earnings increase.

Q. Yes, and the total expenses increase. A. Yes.

Q. As I gather from Mr. Bailey, if that is the gentleman's name—

Mr. Norton. Yes, Mr. Bailey.

Mr. Atwood. You haven't in your report here any such designation as would enable us to contrast the earnings of that portion of your system that is classed as system in 1906, with the earnings of the same portion of the system in 1907? A. No, we have not. We have the earnings per mile, however, which tells the same story.

Q. Well, perhaps.

Mr. Lyon. The earnings per mile are here if you want them.

Mr. Atwood. But that is quite apart from the situation we now have.

Factors in Reasonable Rate.

Now, then, Mr. Ripley, coming back to a consideration of what we started to touch upon a little time since, as to the magnitude of this factor in this problem that is described as the cost of transportation, you said this morning that it was not a matter of grave moment, and I am not attempting to quote you, but how much of a factor do you consider that to be in the making of a reasonable rate? A. I said this morning that I did not consider it a prime factor; that while it might be considered a factor it was not the principal factor or one

of the principal factors in my opinion, looking at it from the standpoint of the interests of the public regardless of the interests of the railroads; I thought that was altogether secondary.

Q. Do you give it any consideration at all, and if so, how much? A. I am obliged to give it very serious consideration, but I do not think it has any consideration—I think it has very little consideration in the making of the rates.

Q. Now, then, if that is a fact, the reasonableness or unreasonableness of a rate, as I understand it, and the way it is arrived at cannot be determined in any way except in the negligible degree by considering what the cost of that transportation is? A. That is a fair proposition.

Q. If that is true, then how does the fact that your figures increase become more or less a factor to be considered by the Commission in determining whether a rate that is proposed is reasonable or unreasonable? A. I don't think it ought to be considered by the Commission as a factor.

Capitalization of Company.

Q. All right sir, you are perfectly consistent, Mr. Ripley. Now, with relation to the cost or capitalization of the road, do you treat those two terms as synonymous? Is your capitalization in excess of your cost? A. No, sir.

Q. I said cost, not reproduction. A. I don't know what the road cost.

Q. You haven't even an approximate idea? A. I haven't an approximate idea; whether you want me to give approximate ideas as evidence or not, I don't know.

Q. The approximate truth is still the truth; it is less exact than the exact truth, that is all. If you know approximately the difference between cost and capitalization, you can give it to the Commission. A. I know approximately, I think. The present company took over the assets of the old company from the receivers in 1896. They took it over at a very drastic reorganization, which reduced the fixed charges from $9,000,000 a year to $4,500,000, in round figures.

Q. How about the capitalization? A. The capitalization at that time represented what I should call the cost.

Q. All right. What was it? A. You mean in figures?

Q. Yes, sir, millions of dollars of stock, if you can approximate it. I quite recognize that you cannot remember all those figures. A. Substantially it was $114,000,000 of first mort-

gage bonds, $51,000,000 of adjustment bonds, $102,000,000 of preferred stock, and $100,000,000 of common, about.

Q. $200,000,000 of preferred? A. No, $100,000,000 or $102,000,00.

Mr. Lyon. What was that, common?

Mr. Ripley. No, preferred.

Mr. Atwood. About $102,000,000 of common? A. Something over a hundred millions common. I am speaking from memory and those figures might not be quite exact.

Q. I would not expect them with exacting particularity, yet, at the same time, it is approximately correct. Now, what I desire is your statement in connection with whether or not the capital stock as contradistinguished from total capitalization, as represented by stock and bonds, whether the preferred and common stock was representative of more or less or the actual value of the property at that time? A. You mean by actual value what the money was that had actually been spent on it.

Q. I will allow you to use the word value as you please. It is a pretty common word. A. I think that the value was not overstated in the computation, the value of the property.

Q. I think we are perhaps at cross purposes. I had in mind all the while the capital stock; the capitalization of course embraces bonds and stock. There were bonds to the amount of $152,000,000 and then the readjustment bonds? A. Yes.

Q. That of course was in the days before the railway company came into existence. A. $152,000,000?

Q. $152,000,000 it is here. A. What date was that, at the time of the reorganization?

Q. No, this speaks of the general mortgage bonds. Aren't those the ones? A. Those have been increased since. You were asking about the time of the reorganization.

Q. That is right, sir, and I am glad to have you set me right. A. As I recall it I stated it was $114,000,000.

Q. Yes, $114,000,000. Then there were the readjustment bonds issued at that time. A. $51,000,000.

Q. That would be approximately $165,000,000 of bonded indebtedness? A. Yes.

Q. Now, did the two issues of stock, preferred and common, represent the value of the property without considering the bonds, or did you have to take into consideration the bonds and stock together, in order to arrive at the fair measure

of the value of the property? A. Of course, we had to take the two together.

Q. And that is what you meant when you said capital? A. Yes, surely.

Q. Then at the risk of repeating, I will ask you again do you think that the bonds and stock in 1896 fairly represented the value of the property? A. I think so.

Q. Now those bonds that were put on the market—

Mr. Lyon. Does the witness mean it does not represent anything more, but represents simply the exact value approximately?

Mr. Ripley. The question was not put in that way. He asked me if I thought they represented the actual value. What I meant to say was that I did not consider that the capitalization was in excess of its actual value.

Mr. Atwood. That is what I understood.

Mr. Lyon. I did not understand the answer.

Bonds Sold at Discount.

Mr. Atwood. All right. Those bonds were put upon the market how? By underwriters, by offers to stockholders, by commission houses, commission sales, or how? A. Well, both, but they were usually underwritten.

Q. Was this eight million or seven million—eight million dollars, I think you said was the amount less than the face of the bonds that actually went into the treasury of the company? A. Yes.

Q. Did that go to pay the underwriters' profits? A. I don't know. That was the difference between the par value for which we obligated ourselves and the amount which we actually got.

Q. In other words, the public has through the exactions that went to your revenues, paid interest on eight millions of dollars that you have not got, at least that never went into the property? A. Well, if you put it that way, yes.

Q. Isn't that a correct way of putting it? I don't want to put it any way that is not right, Mr. Ripley. A. I don't think it is quite the right way to put it. We got that much money less because we got the money on the best terms we could, and spent it as honestly as we could, and we spent it for the benefit of the public.

Q. And I am polite enough to agree with you in all those suggestions. The only question is now whether or not we have not been paying interest on eight million dollars that we did not get any money for. A. We have, yes.

Q. And you have got most of that from the public to pay it with, isn't that true? A. Yes, we have earned that.

Q. Yes. The disposition of the stock at that time, was it employed in taking up other stock, or was it sold in the open market? A. In part. It was largely employed in the taking up of junior bonds, taking up income bonds, and second mortgage bonds.

Q. Was the stock used at par for that purpose? A. No.

Q. No? A. The stockholders were assessed and were given a certain quantity of stock and a certain quantity of bonds for the assessment. The bonds and preferred stock that were issued at that time were issued for cash paid by an assessment on the stockholders.

Q. As a result of all that, there was a new issue of stock, some common and some preferred? A. Yes. But the total capitalization and the total stock issued was much less than it was before.

Q. Of course, I am not quarreling with the old company. That had ceased to exist. That was the old railroad company and this railway company is an entirely new entity. When this was born a statement went into the hands of the public, whether the bondholding public or otherwise. Now, what I desire to know is, if your recollection serves you, how much of the bonds, junior bonds or otherwise, or money or both, was represented, what percentage of those things was represented by stock that was issued? Was it dollar for dollar of new stock that went for those things, or was it below par? A. If I understand what you mean, perhaps I can give you an idea of the organization, that will answer that question.

OLD COMPANY REORGANIZED.

Q. Very good. A. The first mortgage bondholders, who had had no interest for two or three years, were given, as consideration for their bonds, for each $100 of bonds, they were given $75 in the new first mortgage bonds, and $35, I think, in preferred stock.

Q. $110, mortgage and stock?

Mr. BAILEY. May I correct that as to the exact facts?

Mr. ATWOOD. All right, sir.

Mr. BAILEY. $75.00 in general mortgage bonds and $40 in adjustment bonds.

Mr. RIPLEY. That is right.

Mr. ATWOOD. What was that total?

Mr. BAILEY. That totals $115.

Mr. RIPLEY. That totals $115, yes.

Mr. Atwood. That was given for $100 of old bonds? A. And the interest. They had not had any interest for two or three years.

Q. That was the disposition? A. Yes.

Q. How was the common stock disposed of, was that put on the market? You have used your preferred and your mortgage bonds to take up the first old mortgage bonds, that is right, isn't it? A. That happened fifteen years ago, and while I was quite familiar with it at the time, it is difficult for me to give the exact figures.

Q. I can understand that, Mr. Ripley. A. But substantially—if you desire a statement as to exactly how that was done, we can furnish it.

Q. But the statement made by Mr. Bailey is approximately correct? A. Yes.

Mr. Norton. Mr. Bailey would like to make it in full.

Mr. Atwood. In due time he will be on the witness stand and he can do it then. Now, then, coming back, if you will permit me to do so, to the consideration of how much the cost of operation—no we did dispose of that by saying that was a negligible quantity and should not be considered. Now, if that is a fact—or I think you have stated, I may be repeating, but see if I am right—you have already stated that the advance or shrinkage of wages is a matter with which the Commission has nothing to do, in the matter of determining what a reasonable rate is.

Mr. Norton. I did not so understand it.

Mr. Atwood. The record will show what it is, and there is no jury to be misled, so we can leave it to the record. A. I said that I did not think the Commission should consider that question in making a rate.

Mr. Atwood. You cannot make him say what he don't want to say.

Mr. Norton. I am not trying to make him say anything, I only want to know what the examination is.

Mr. Atwood. All right, sir, I withdraw the suggestion or intimation. As to the capitalization which at least in 1896 was fairly representative of the actual value of the property that it stood for, is that true of the situation today? A. I think so.

Q. In 1896 the report that I have here discloses the time that the issue of bonds became due, but not the time at which they were born. The general mortgage due October 1, 1895, for

$152,000,000, that is the amount that you spoke of first as having been but $114,000,000 originally and added to since that time. A. It was less than that in 1896.

Q. Well, whatever it was, something like $100,000,000. A. Yes.

Q. Now, the adjustment bonds, $51,000,000, they were issued about that time, I judge from the way you have spoken. A. At that time; yes, sir.

Q. Then the convertible bonds due June 1, 1955, $34,000,000 of them, do you remember when they were issued? Of course, I can quite understand that you might not do so, and if you do not it is all right. They became due in June, 1955, but it does not state when they were issued. A. Evidently they were issued in 1905 then, because they are fifty-year bonds.

Q. I see. Now, were those disposed of through underwriters, sale on the open market, or by offers to the stockholders? A. I think those were sold through an underwriting syndicate, but I am not certain.

Q. That was in 1905? A. I think so.

Q. Have you any recollection as to what the underwriting was, at what figure you disposed of them to the underwriters, so as to know how much there was less than par that we are paying interest on now? A. I won't attempt to answer that question exactly. They sold very close to par but not quite.

Q. I had that information because I have followed these things a little. Then came the convertible bonds due June 1, 1917. Weren't those those ten-year convertibles? A. No; those were fives, I think.

Q. Those were fives, that is right. A. Yes.

Q. There were $22,000,000 of them. A. I think those were sold at 101½ or 102.

Mr. Lyon. What interest did they bear?

Mr. Ripley. 5 per cent.

Mr. Atwood. Then the Trans-Continental Short Line due 1958, covering fifty years, they were issued in 1908? A. Yes.

Q. Do you remember what figure they went at? A. My recollection is they were sold at 97½ or 98.

Q. Was that through underwriters? A. Yes.

Q. There were seventeen millions of them? A. Yes.

Q. Are you mathematician enough to determine whether or not the premium at which the $22,000,000 of the previous issue sold, would offset the discount at which the $17,000,00 sold,

pretty nearly one would offset the other, wouldn't it? A. Pretty nearly.

Q. So the company did not lose badly on the two transactions? A. No.

Q. Now, then, special debentures, $2,500,000 due February 1st, each year until February, 1919, total of $30,000,000 outstanding, bearing 4 per cent. It doesn't say here when they were issued. Are you able to state when they were issued? A. I think they had fifteen years to run; they were payable two and a half million dollars a year.

Q. Are those debentures secured by the stock and bonds of your subsidiary lines? A. No, sir; they are not; they are a simple promise to pay, a simple note secured by another.

Q. Why do you attach the name debenture to them, if there is no debenture collateral? A. Because that actually describes them; they are a debenture, a debenture meaning a note or promise to pay.

Q. In your terminology as a financier, does not debenture ordinarily apply to the same collateral held as security for the bond, or note, or call it what you will? A. Not necessarily.

Q. I had that idea. A. I may be wrong about it, but I do not think so, necessarily.

Q. Then these debenture bonds, as you call them, are simply promissory notes? A. Yes.

Q. Not secured by anything? A. Practically nothing except the honor and faith of the company.

Q. Now, then, does the fact that there is a total capitalization as represented by capital stock, preferred and common, of $233,000,000, omitting the other figures, and as represented by the bonded debt of $314,000,000 and some odd dollars, making approximately at least $550.000,000 of capitalization, cause you to say that that is fairly representative of the value of the properties that these securities stand for? A. I think it is, yes.

Q. And it at least is representative of them? A. Yes.

Q. At least that? A. Yes.

Q. Now, then, I understood you this morning, and you will set me right, if I am wrong, the value of this property that you employed in the service of the public as a common carrier should be considered by the Commission in determining as to whether or not the rates proposed are reasonable or unreasonable?

Mr. Norton. He did not say that.

Mr. Ripley. No; I didn't say that.

Mr. Atwood. I am obliged to you for setting me right. Tell us what it was your purpose to say then, whatever you did say with relation to the magnitude of the factor of capital in this problem. How much ought a matter of that sort to be considered? A. I don't think I alluded to that at all in my evidence this morning.

Q. Very good. Be good enough to allude to it now. How much importance should, in your mind be given to the factor of capitalization, or the value of property in determining the reasonableness or unreasonableness of a rate. A. I think that is one of the factors, of course, and a very important one. So long as the railroads of this country are run by private individuals, so long as they are owned by private individuals, so long their return has got to be both safe and attractive.

How Rates Should Be Made.

Q. Then as I understand you, the factor of capital, the value of the property as represented by capital, is a thing that must be considered either by the maker of a rate or by a commission that is passing upon the reasonableness of that rate, is that right? A. The maker of the rate in the first instance must make the rate such as to permit of the freest intercourse and the freest interchange of commodities in the country, regardless of capital, regardless of cost—almost regardless of cost, but entirely regardless of capital. That is what the maker of a rate has got to do if he is going to get the best results out of his property. When it comes to limiting rates by law, it is another proposition. Then you have got to consider cost, interest on capital, and everything else.

Q. Now, let me see if we understand one another. You, speaking as the head of the Santa Fe system and as the maker of rates in what you are pleased to call your private capacity as contradistinguished from your official capacity or the official capacity of the Commission, in making a rate don't think it proper to consider and say it should not be taken into consideration, namely, the value of the property employed in the service. A. I did not say it should not be taken into consideration, but I said as a matter of fact in dealing with these complex commercial propositions the maker of the rate must discard to a very large extent the question of the return on capital; because he has got to make a vast number of rates which he knows that of and by themselves are unprofitable, and a vast number of rates that applied to any considerable

portion of his business would bankrupt him. So long as he makes a rate that does not bear hardly on any of the community and permits the very fullest interchange of commodities all over the country, helps commerce, so long he ought not to be interfered with.

Q. Is your answer concluded? A. Yes.

Mr. Norton. That is a reasonable rate?

Mr. Ripley. That is a reasonable rate.

Mr. Atwood. Now, then, do I understand you as expressing the opinion that different rules should govern the rate-maker who is the rate-maker for a railroad, than should govern the Interstate Commerce Commission when they try to fix a rate or pass upon the reasonableness of a rate? A. Not in the least.

Q. You think the same rules should govern each? A. Absolutely.

Q. Very good. Then when you said a moment since, if I did not misunderstand you, that you thought you should discard pretty nearly altogether the valuation of the property employed, when you make a rate to meet these complex commercial conditions, to use your own phrasing, you expressed a rule that you think should apply to the Interstate Commerce Commission when they act in their official capacity? A. I do. I think they should consider the value of the service first and foremost and leave the question of the cost and the valuation of the properties to altogether secondary consideration.

Examiner Brown. When you speak of the value of the service, you are speaking now of the value of the service to the shipper?

Mr. Ripley. I am.

Examiner Brown. As distinguished from the value of the service as a concrete fact?

Mr. Ripley. Yes.

Mr. Atwood. I did not quite know whether I took your last observation with reference to labor as a modification of your first statement in relation thereto. I understood you to say that the cost of labor was a cost that should not be considered either by you or the commission in determining the reasonableness of a rate, and that the same rule applied to capital, and yet a moment ago I understood you to say that the labor did have to be considered somewhat. Was I wrong in my hearing? A. You were wrong and you were right, both.

What I said was that in making a rate, I would not consider any of the costs of labor, or anything else, nor any question of the return on capital, that is, under conditions as they exist in this country. If there was one railroad in this country reaching from east to west with no complications, and no competition upon which you were to fix the rates absolutely *de novo,* with the fixed idea of bringing about a return on its investment, that would be one question. Then you would have to take into account its capital stock, you would have to take into account cost. But no such condition exists in this country. The rates must be made, ought to be made, upon an entirely different proposition. This idea that the rates are to be based on cost is, in my judgment, a fallacy. The defenses that have been made usually by the railroads as to cost as against proposed reductions in rates, of course have their basis, they have their foundation in fact, as arguing against an arbitrary legal reduction of their rates; but as to the real question of judgment as to what the rates should be, they play a very small part.

Q. Now since, of course, it is the situation in this country, that must be the one to which the rules are applied, the rule that you laid down a little time since, of the ignoring of the value of the property employed and the cost of the operation, in the making of the rate, is the proper rule in your judgment to govern yourself or the commission? A. Yes, sir.

Q. Now, since you are here as an expert in such matters, and I speak advisedly, for one of your great experience must be considered as such, I would ask your opinion upon the following rule with relation to the creation of a reasonable rate (reading): "We hold, however, that the basis of all calculations as to the reasonableness of rates to be arrived at or maintained"—I should say, under legislative sanction, and of course the railroads do that, because they have to exercise the right of eminent domain to do it—"must be the fair value of the property being used by it for the convenience of the public, and in order to ascertain that value the original cost of construction, the amount expended in permanent improvement, the amount in market value of the bonds and stocks at present as compared with the original cost of construction, are all matters of consideration and will be given consideration," and so forth. Do you approve of that rule as laid down? A. I approve of that as a guide to any authority which is proposing to limit rates by a legal process. That is

the rule laid down for those who consider that. That hasn't anything to do and does not apply to the man who is expected to fix the rate for the best interests of the public in general.

Mr. NORTON. That is the rule stated regarding the attack on a maximum schedule, is it not?

Mr. RIPLEY. Yes.

Mr. ATWOOD. Did I not understand you a minute ago that you propounded as the proper rule, should be the one, in your judgment, to control not only yourself but the Interstate Commerce Commission when they come to act in matters of this sort? A. If they are proposing to make rates, yes.

Q. And they do have that power? A. If they are proposing to limit rates, then of course the extent to which they can be limited must bring in the question as to the extent to which they can take private property for public uses.

Q. Do you attempt to differentiate between a reasonable rate that is made so by reducing an unreasonable one, and the creation of a rate in the first instance? It is a reasonable rate, however, if it comes into existence? A. That depends upon your definition of a reasonable rate.

Q. A reasonable rate and an unreasonable one, and the definition for them, where do you go to look if it is not the tribunals that finally determine these things? A. The same rule I laid down before is what in my judgment should govern.

Q. In other words, the fixing of a reasonable rate irrespective of what definitions may be given as to the means of ascertaining it by the Supreme Court of the United States, is in your judgment the opinion of the rate-maker as to what the traffic will bear, is that right?

Mr. NORTON. I beg pardon, the Supreme Court has not fixed the rate in the case you have cited; it is not fixing it in that case.

Mr. RIPLEY. I think that the principle, as I stated it this morning, and as I have stated it many times since, the principal thing for any rate making power to consider is the value of the service to the shipper. The value as compared with the commodity to be transported and the service rendered.

Mr. ATWOOD. I think you have stated that several times. Now, let me start again, to make sure that we do not mislead one another. When you make a rate you say that in your opinion the true rule to govern you is one that would elimi-

nate the cost of operation or the value of the property employed; that the Interstate Commerce Commission should be governed by the same rules that you think should govern you, but that when the Supreme Court of the United States comes to pass upon the question as to whether a rate is reasonable or unreasonable, that they should take into consideration both of those factors. Now, have we got it straight?

Mr. NORTON. No, he didn't say that.

Mr. RIPLEY. I don't know that I quite understand what you are trying to get at.

Mr. ATWOOD. If it is convenient not to, or if you really do not, why, let it go. Then I take it that the quotation that is attributed to you and which appeared in the American Lumberman of May 30, 1908, and in the Traffic World and Traffic Bulletin of July 23, to this effect, is a correct quotation of your views: "The making of freight rates has not, never did have, never will have, never ought to have, any relation to the capitalization of the railroads." That is a correct expression of your views? A. It is.

Q. Now, then, that being so, what was the purpose in your mind in presenting to the Commission this morning the magnitude of the capitalization, the fact that some of it was there but was fictitious in the sense that there was face value when there was seven million dollars less than the actual value went into it? In order to form an opinion of the purpose of your testimony I would thank you if you would tell us why you talked about the capital at all this morning? A. Because that has been the customary line of defense in all these cases for a long time, and because in expressing my views as to how rates ought to be made I was not expressing them with reference to this case.

Here is an attempt to limit our rates by law. Here is an attempt to limit rates on the part of the Commission. The Commission has suspended certain rates that we put up. I say that the question before the Commission is primarily what is the value of the service we are rendering to the shipper. Incidentally that value has necessarily been enhanced by increased expenses and increased wages, by increased valuation, by incomplete and inadequate returns on capital. Those are all factors, but the prime factor is what is it worth to the shipper.

Q. Then your testimony with relation to capital given this morning was made with the notion in your mind that the mat-

ter before the Commission to whom these examiners will transport this testimony, was that of what the value of the service was worth and not what the reasonableness of the rate was? A. I think the Commission perhaps understands what I am trying to say. I perhaps am unfortunate in my development of the theory.

Mr. Norton. It is very clear, Mr. Ripley, I think.

Mr. Ripley. I said that the making of a rate, in my opinion, was a matter of judgment, and primarily it was a question of what the service was worth. And I said that I believed it was for the interests of the public that there should not be—that the railroads should not be limited as closely as they have been, and as they are now, as to what they earn. That is another phase of the subject. But you asked me what I considered a reasonable rate was and how it ought to be made so, in my judgment; and if I have not made myself clear I do not think I can do it.

Mr. Atwood. I trust my queries have not been annoying, and if they have I will pursue another course. A. No, sir, not at all. That is what I am here for, to be annoyed.

Q. Now, then, about the amount that the traffic will bear. Do I understand you, and you will correct me if I am wrong, am I right in my understanding of your purpose to express your views when I say that I understand it to be this: That the amount that the traffic will bear is that amount of charge at which it will most freely move over the lines of transportation, is that right? A. Yes, substantially that is right.

Q. Wherein is there an absence of actuality? A. Well, I am willing to leave that answer.

Q. State, then, as an expert in the common carriage of merchandise whether or not commodities are not moved more freely, the lower the freight charge, all other conditions being equal? A. Under certain conditions they will. Under certain—

Q. All conditions being equal. A. Well, all conditions cannot be equal, and never are equal. That is—

What the Traffic Should Bear.

Q. Now let us see if we understand one another. You have made the statement that what you mean by the phrase "all that the traffic will bear"— A. I did not use that phrase, excuse me. I never used that phrase. I did not say "all the traffic would bear."

Q. What the traffic would bear? A. What the traffic would bear. There is a great difference.

Q. All right, your fine shades of meaning I will try to follow. What the traffic will bear.

Mr. Norton. It is a very broad shade of difference.

Mr. Atwood. Let me see if I understand your interpretation of the phrase, "what the traffic will bear," as being that rate at which the commodities will most freely move over the lines of the carrier. That is right, is it? A. That was the phrase I used, yes. I will qualify that by saying what the traffic will bear and still move most freely and enable the products and the manufactures of one part of the country to be used to the utmost possible extent in the other—to be no restruction in the matter of transportation.

Q. Now, then, if that be so, I will now ask you as a corollary of that theory to answer whether or not it is not a fact that with commercial conditions substantially the same at either end of the line, and the carrier the same, that the lower the rate the more freely the commodity will move. A. I should be inclined to deny that proposition as a general one. There are very many conditions under which that would be true, but when you say the conditions are the same, the conditions never are the same and it is an impossible theory.

Q. Oh, well, while that as an academic proposition is true, Chicago's conditions today are enough what they were yesterday so we can speak of the conditions of the two days being the same. A. It is not the condition of Chicago today and yesterday—

Q. I understand, but that is one of the conditions— A. You ask whether the conditions being the same the same amount or greater amount of tonnage will move at a lower than a higher rate. That depends on what it is and on a thousand various conditions. The question cannot be answered in the abstract any more than you can answer the question Huxley asked once of a man, which he liked best, billiards or cabbage.

Q. Well, let us not get scientific— A. That is not scientific.

Q. Huxley was a scientist, you know. A. That is not scientific. He simply asked the man which he liked best, billiards or cabbage. You might as well talk about the same conditions, about property moving under the same conditions, it never happened, and conditions never are the same.

Q. Nothing so plebeian as cabbages could attract your attention, so we will go back to the heart of the proposition. If you undertake to say to these Examiners and so to the Commission that you cannot conceive of an answer to this question so that you can answer it yes or no, that with commercial conditions substantially the same between the termini of a road, we will say between Chicago and Kansas City, that a commodity, any commodity, won't move more freely over the line of the carrier when the rate is low than when the rate is higher— A. It is an impossible question. If you demand an answer I would say no.

Q. You would say it would not move fore freely? A. Yes, I would.

Q. To go a bit farther than that, let us assume for a moment that dry goods—do you know the rate between here and Kansas City? A. Yes.

Q. 74.3 cents a hundred? A. I think so.

Q. Suppose tomorrow there went into effect a rate of 25 cents first class in the place of 74.3 cents on Atlantic Seaboard-Kansas City shipments, do you think that the commodities covered by first class would not move more freely than it does at 74.3 cents? A. Not a single pound.

Mr. Norton. They are getting all the dry goods they want at Kansas City now, are they not?

Mr. Atwood. I do not know. It is usually accepted as an economic proposition that the more cheaply any commodity is transported to the consumer the more is consumed.

Mr. Norton. You are getting into science yourself, now.

Mr. Atwood. Economics are not science. It is common sense, consequently you will never understand it.

Q. When we speak of what the traffic will bear, who in your judgment is the determining factor, the man who makes the rate? A. Not necessarily.

Q. Is it the shipper? A. Not necessarily. He is one of the factors.

Q. Is he ever taken into consultation when you come to make these rates? A. Indeed he is. If he was not, our rates would all be higher today.

Q. Were it not for the Commission, you mean. A. No, I did not say anything about them. I said the shippers.

Q. You say the shipper is taken into consideration and his judgment helps govern? A. Yes.

Q. What of your rates which now obtain are the result of

the application of the rule which you have promulgated, any of them? A. Which rule?

Q. The rule that it should be what the traffic will bear. A. I think comparatively few of them.

Q. Very few of them. You think most of them could bear more? A. I do.

Q. By that you mean that they could and would pay a higher rate than now they pay and still substantially the same quantum of commodities would move over the line? A. I do.

NEED OF MONEY AGAIN.

Q. A little time since, this morning, in fact, you said you desired the advance of rates because you needed the money. I quote you correctly? A. Yes.

Q. The money is not needed to pay operating expenses, is it, because you have plenty to pay that? A. I do not think we have.

Q. Well, you paid them all, did you not? A. Oh, yes, we paid them.

Q. And had nine or ten million to go to betterments and additions and improvements and a fund of five million dollars. A. In 1909, yes.

Q. And you had a fund of $3,000,000 to go to future improvements in 1910? A. About that.

Q. And you spent something in the way of additions and betterments in 1910? A. Not much.

Q. And you left your road in as good or better condition at the end of the fiscal year 1910 as you did in 1909? A. Yes.

Q. So you did not need the money to keep your road in as good condition as it was before; that is true, is it not? A. We are talking about the past.

Q. We are talking about the year 1910, the fiscal year ending June 30, 1910. A. I think this case has to do with the future.

Q. But it has been suggested that it is only by the past that we can judge of the future, consequently— A. Well, when we see a stone wall in front of us at the end of the street, the fact that we have not previously gone through that stone wall does not indicate that the wall is not there.

Q. But if you have a ladder composed of four or five million dollars gross revenue to help you climb the wall the sit-

uation is not as difficult as it otherwise would be. A. It would not help us any.

Q. I wish I had it, I think it would help me. Well, coming now to the discussion—by the way, while it was not the thought I had in mind, I want to speak for a minute about the subsidiary lines, if that is the way to describe those branches, if that is the right word to apply to them, that are other than what we call the main line, or at least what the commonalty call it. A. Yes.

SUBSIDIARY LINES.

Q. Let me see. Eastern Railway, Grand Canyon, and Jasper—those are not all. Here is a summary of the system. The railway proper is 7,000 miles. The Rio Grande & El Paso, a piece of track 20 miles long; the Gulf, Colorado & Santa Fe; the Eastern Railway of New Mexico; the Pecos & Northern Texas; the Santa Fe, Prescott & Phoenix and the Southern Kansas Railway of Texas. How was the Gulf, Colorado & Santa Fe acquired? A. It was acquired many years ago before my time by the purchase of the bonds and stock which was—

Q. At the time of the reorganization in 1896, was it so far incorporated into the Santa Fe System that there was a merger or elimination of those stocks and bonds? A. The bonds and stock were in the treasury all through the receivership and are still.

Q. Do you know the means—if it was before your time you might not know—the means resorted to, to acquire money with which to purchase the stocks of the Gulf, Colorado & Santa Fe which are now in the treasury of your company? A. I do not recollect that. It was before the present company had anything to do with it and long before my time.

Q. Now the Santa Fe System owns the stock of that company? A. Yes.

Q. And certain or all of the bonds? A. And all of the bonds.

Q. And they are in the treasury of the company? A. They are.

Q. Are they pledged as security for any of the obligations of your company? A. They are.

Q. To what obligations are they pledged? A. I think they are pledged under the general mortgage.

Q. Is that true of all the stock and securities of the roads

you heard me just read? A. Not all, no, sir. It is true of a large number of them.

Q. Do you have in mind, or have you, Mr. Bailey, the figures showing the capitalization of the Gulf, Colorado & Santa Fe, which is now in the hands of the treasury, or pledged?

Mr. Bailey. They are pledged under the general mortgage, the entire capitalization.

Mr. Atwood. Do you know the amount of them?

Mr. Bailey. You will find them on the back of that report, the last two statements. (Referring to Santa Fe Annual Report 1909.)

Mr. Atwood. Stocks pledged as securities to funded debt.

Mr. Bailey. First mortgage $12,695,000, second mortgage bonds $8,614,000, and right on the opposite side you will find the Gulf, Colorado & Santa Fe stock, 45,600 shares.

Mr. Atwood. To make a long jump, that is true as I gather of nearly all. What of those are not included in the pledged securities? A. Well, we have quite a number of subsidiary lines that have been built under different charters, which are not pledged under our general mortgage. The funds for the construction were derived from the sale of our general mortgage bonds, but they are not a specific lien on that property.

Q. The question is suggested by Mr. James as to whether or not you distinguish or differentiate between the cost of the service, which of course is paid by you, and the value of the service, which of course is the thing the benefit of which goes to the shipper. Is there any identity in your mind between those two? A. I don't quite understand. Any identity, what do you mean?

Cost of Service.

A. Well, whether or not the fact that a service costs a dollar is at all determinative of the value of that service to the man who is served thereby? A. It would in part determine me as to whether I was proposing to make a rate which was materially below that cost. I should hesitate to go below what I considered the cost of the transaction. To that extent it would influence me, of course, although, as I said, it frequently becomes necessary and desirable to go below the average cost. But if I thought the cost of that individual transaction would exceed what I was going to get out of it, of course I would not do it.

Q. In other words you would recognize it would be un-

lawful to make a rate which was less than remunerative; but suppose the service was actually worth to the consignee or shippee of a commodity $3.00, and the cost to you was actually $1.00, the $3.00 rather than the $1.00 would be the measure of a proper rate to charge that man? A. That would depend altogether upon what it was, what its value was, and what its value was at the destination, and what its value was at the point of production.

Q. Would the fact of the character of the commodity cut any figure with you— A. Very little.

Q. Pardon me until I finish the question. When you take into consideration the factor in the problem that is expressed in the thought that that service is of value to him to the amount of $3.00, now that is a way of getting at what the traffic would bear, if it is worth that to him he would ship the stuff at that figure. A. If 100 pounds of it was worth $500, I should consider that $3.00 carriage rate was extraordinarily cheap, even if it paid me a profit of 300 or 600 per cent.

Q. If you will be good enough to drop the concrete and take the abstract propounded in this question— A. I cannot.

Q. I am sure you can but— A. I cannot deal with the abstract except by concrete instances.

Q. That is by way of illustrating, but not by way of consent, and that is what I am addressing myself to at this moment. I will ask again, since you have stated that the proper measure to determine what the proper rate is what the traffic will bear, and that that means the rate at which it will freely move, recognizing the fact that if a service is worth to a man who is employing the carrier $3 he will certainly employ the carrier at that figure because he can make money by employing it at a figure at which he derives a profit— A. Exactly.

Q. Now, then, it is the fact that that carriage would cost the carrier only $1, because you put them differently than that; the $3, the value of the service to the man who is employing the carrier is the true way of fixing the rate. A. Not at all.

Q. Then that would not be the way of fixing it? A. I said the fact that it only cost me $1 would not influence me to make the rate less than $3 if I thought that the circumstances warranted it.

AGAIN, TRANSPORTATION ECONOMIES.

Q. Something was said in language that seemed to me disparging of the greater capacity of car and engine. Do you desire to be understood as saying that it is still a problematical question in the mind of expert railroad men as to whether or not the freight engines now employed are more economical to employ than those of less drawing power? A. No, sir, I do not say that.

Q. And it is true that these larger cars with greater capacity are not recognized by sound railroad men as being an improvement in the way of cheapening the cost of transportation or carriage? A. It is a very doubtful question as to whether the increase of the car beyond certain limits, say beyond 80,000 pounds—some say 60,000 pounds—whether that is an economy.

Q. Coming back a minute to this question of what the traffic will bear, do you recognize the fact that what the traffic will bear under the definition which you give that phrase, is determined in some measure at least by the general prosperity of the country? A. Yes, as to certain items.

Q. Well, take the schedule as a whole, we will say, when business is exceedingly brisk, good as we common people say, business is good, does not traffic move even at the same rates more freely than when what we call hard times are on? A. As to the great bulk of the merchandise moved, it moves freely or otherwise according to the conditions of the time and the freight rate does not affect it.

Q. No, you have gotten just the wrong end of what I am trying to talk about, or perhaps I have not presented it to you correctly. In any fixed schedule such as now obtains over your line, if business is good there is more to move than when business is bad? A. Yes.

Q. That is undoubtedly so. Now, if when business is good, or to put it the other way, when business is bad, is your judgment such that it causes you to say if there was a pronounced diminution of the rates there still would not be an increased movement of the commodities? A. No, sir, there would not. Now, I do not mean by that that there are not certain things under certain conditions the movement of which would not be excited and increased by a concession in the rates. That has been the policy always. Perhaps it has been carried to an unreasonable extent, but always when the proper reasons are

shown to demonstrate that there would be an increase in the movement, it has been granted.

Q. But, Mr. Ripley, I understood you this morning, in answer to the query of your counsel, to say that one of the things that moved you and those circumstances as you are in making the rates is that you desired to participate in the general prosperity which had been obtained? A. I did not say so.

Q. Is that at all one of the factors which moved you to making the demand, a desire to participate, if you put it that way, in the general prosperity? A. I think that it is absurd, with the general prosperity which has been abroad for three or four years, that the railroads have had so little of it.

Q. In other words, that there should be an advance in rates because of the general prosperity, that is what your conclusion comes to, I take it. A. I put it the other way. I think that is the most excellent reason why there should be no objection to an advance in the rates.

Q. And are we to infer from that that if times should become hard you would think it entirely just for the Commission to abate and diminish the rates because of that fact? A. No.

Q. You would not accept that end of the proposition? A. No, and we have not had the other. I would be quite willing to take one if we could get the other.

Q. That is if you could get the other first? A. No, I am quite willing to enter into a contract that if we could get one we would take the other.

Q. But what if there was a change of directors and managers who would think they were not bound to accept that?

Mr. Norton. We would expect the Commission to enforce that.

Mr. Ripley. I have not yet to see anybody who has had trouble in enforcing contracts against railroads.

Mr. Atwood. Oh, well, an unlawful contract such as that, no lawyer would undertake to say a contract such as that was good. You mentioned as a concrete illustration the situation in Kansas City, where you said that the railroads—and I did not suppose you meant your road alone, of course—were building a big station. That is being built by the Kansas City Terminal Company? A. Yes.

Q. And that is not expected to be built out of the surplus earnings of the roads who own the stock in that company? A. Indeed no. It ought to be, very largely it ought to be.

Q. The fact is an issue of very many millions of dollars of bonds has been authorized by the company, and it is the purpose of that company as you understand it, to get the money in the way of bond expenditures from the dear people in order to have that built. A. The dear people, did you say?

Q. Yes. You do not expect anybody to draw the money out of the vasty deep, do you? Somebody, which constitutes the people, for even the bondholders are people. A. They expect to mortgage the property, and fortunately they sold bonds to some extent already—

Q. Do you know at what they sold them? A. Yes.

Q. How much did the underwriters get out of it? A. I do not think that is germane to the question. I do not think the underwriters have got anything yet, and I do not know whether they ever will.

NON-REVENUE-PRODUCING EXPENSES.

Q. You were using that as an illustration of one of the things that the railroad companies had to build, from which they derived no direct revenue. A. That is right.

Q. Now, then, do you mean to be understood as saying quite that, that the arrangements there in Kansas City—have you knowledge of it? I take it you have? A. I have.

Q. And the arrangement made between the city and the company? A. Yes.

Q. And the concessions made to it and the franchises that went with it? A. I did not notice any great concessions with it.

Q. You got the use of several streets. A. No.

Q. You got the franchise, did you not? A. We got a franchise and got a right to close a few streets at the expense of putting viaducts over a great many others. I think the city drove a very hard bargain.

Q. And the result of it all was that for the granting of this 200 year franchise and the granting of such concessions, if it is not too great a term to use, you did enter into an agreement for the building of the depot? A. Yes.

Q. Was it not recognized among you railroad people that that was a necessity which had to be met, by the growth of the terminal, and that your Union Depot as it is now was entirely inadequate? A. Yes, sir, certainly.

Q. So it is not altogether a philanthropic actuation which caused you to plan it?

Mr. Norton. That has not been suggested.

Mr. Ripley. No, that has not been suggested. We are spending $30,000,000 on a depot when we could build one for $100,000 which would answer our purposes.

Mr. Atwood. But you could not do that and get the concessions in the way of streets and locations for $100,000, could you? A. No, that is precisely what we said, that these communities demanded a great deal of us which would not pay us any interest.

Q. As suggested, was the fact that the locus was in such a juxtaposition to the rivers, the Kaw and the Missouri, that the flood situation was a moving factor in determining the roads to get out of the bottoms? A. We did not need any moving factor to determine us to get away from where we were, because there was no sense in staying there; it was overcrowded and bad in every respect. There was no question about our getting away from there, but we did not have to build a marble palace for the passengers, which the city of Kansas City practically compelled us to build in return for a railroad concession.

Q. I do not suppose the public at large is interested in Kansas City as I am and as you ought to be, but I will ask you this now in absolute frankness: is it not a fact that you could not have got the franchise that you did receive and which you thought at least a sufficient consideration to cause you to build the structure you are going to, if you had not agreed to build the size structure which is contemplated? A. Very likely.

Mr. Norton. That is what he says—the city compelled him to build.

Mr. Atwood. But they could not compel them to build. The only thing is, I want to disabuse the mind of the Commission of the idea that there is a donated or eleemosynary element about that depot. It is a mere matter of bargain and sale.

Mr. Norton. That has not been suggested.

Mr. Atwood. He gave it as an illustration of one of the ways moneys went from which there was no return and which ought not to be capitalized. Is that capitalized? A. It is.

Q. Pretty heavily capitalized—how many millions of bonds are authorized? A. Well, I think thirty millions, but—

Q. How much did you say it is going to cost? A. We will probably spend about $15,000,000.

Q. An authorization of bonds for two to one on the actual

contemplated cost. A. Hold on, don't put it that way. Every dollars of bonds that are sold, every dollar received for bonds will go into the property. There is an authorized issue of $30,000,000, but only $15,000,000 about to be issued, and no more issued than required to build.

Q. Then that is capitalized? A. That is capitalized by the Kansas City Terminal Company and the interest of it is a perpetual tax on all the railroads entering Kansas City, and we have to pay our shares of it, and the expenses; and, as I say, we are paying our proportion of the taxes on those magnificent facilities which are going to be provided there, a large portion of which return us no income whatever.

Q. You had to have terminal facilities in Kansas City, did you not? A. Yes.

Q. You had to get out of the place where you were, as you say? A. Yes.

Q. You had to make concessions to Kansas City in order to get the street vacations and concessions you deemed necessary to your new venture? A. Apparently we do.

Q. And consequently you did that which you are about to do as a mere matter of business expediency, and that is capitalized? A. Well, you can put it that way if you like.

Q. You say that is not paid out of income. Do you think it ought to be paid out of income? A. I think what we do for the vanity of the cities along our lines they ought to pay for.

Q. And you think that that depot is a thing that should be paid for or should have been paid for out of gross earnings and not the result of new capitalization? A. I think it is not a matter which concerns us except as one of fifteen or sixteen railroads. If it was on our line I should say that if we put up a depot of that kind to tickle the vanity of any particular community it ought to be paid for by the present generation out of current earnings, because 40 years from now it will be entirely inadequate and there will have to be another one, and I do not think posterity should be saddled with that as a debt.

Q. Do I understand then that the building of that structure so far as your company was involved in it, is the result of a concession what you are pleased to call the vanity of Kansas City and not the result of what you believe to be the result of a good business bargain? A. You can put it that way if you want to.

Q. I am asking you to put it, and I am not the one who is

testifying. Which horn of that dilemma will you adopt? A. I do not admit there is any horn about it.

Q. All right. A. Kansas City held up the corporations for a franchise for a long period of years.

Examiner Brown. Since 1892.

Mr. Ripley. It is the result of a long-protracted negotiation which I was not in except as I heard reports of it from time to time from those who represented us there, and it was finally agreed among other things that we would erect this marble palace. Now, I am not regretting the bargain, and I will not say that it might not be a good thing from the standpoint of our own pride to erect that sort of a building anywhere, because we are not illiberal in the matter of stations. We have, I suppose, the finest lot of stations in the United States, and I do not say that I do not believe in those things, but I do say they ought not to be left for future generations to be paid for. That is all I am talking about.

Mr. Atwood. Coming back to this elevation of tracks, does that term cover where viaducts are made over streets, so grade crossings are avoided? A. Yes, sir.

Q. That is the phrase usually employed to express that engineering fact? A. Yes.

Q. There is a considerable saving in the way of damages resulting from injuries to people at crossings? A. Yes, sir; insignificant.

Q. Is there not some saving in the interruption to traffic? A. Yes, sir, some.

Q. There are advantages which accrue as well as cost incurred? A. I think I said so.

Q. And do I understand the policy of your road to be that all those structures and the betterments of depots and building of smaller, not great depots like at Kansas City, that it is you policy to charge it out of gross income and then charge it off the books of the company. A. No, not at all. I did not say it all ought to be but I said a good deal ought to be.

Q. What is the policy of your company, whether or not you do capitalize that or charge it off? A. As to the mere questions of depots our present policy is to charge to operating expenses the value of the old structure and charge the rest of it to capital. That is prescribed by the Interstate Commerce Commission accounts.

Mr. Norton. It is to be charged to either capital or income.

Mr. Ripley. Yes, but it is not taken care of out of operating expenses.

Mr. Atwood. Perhaps it is my understanding rather than the phrasing of the witness which leaves it a little vague in my mind as to whether or not it is or is not capitalized and become part of new capital. A. If we substitute a $40,000 depot for an old one which cost $5,000, we charge the remaining $35,000 either to capital or income, as we may be able. If we have the income we are likely to charge it to income, but it all appears on our books as an obligation taken care of either by one or the other. Under the Interstate Commerce Commission rules we may charge it to either capital or income, but it must show as outside of operating expenses.

Q. When charged to income it is paid out of profits? A. Yes

Q. It is not paid by the acquisition of new capital? A. No.

Q. And when it is paid out of profits it is paid from the gross revenues of the company? A. Yes.

Q. And that is derived from the rates charged for passenger and freight traffic? A. Yes.

Q. In other words, it is paid by the shipper and traveler; that is a fact, is it not? A. It is when it is paid for in that way.

Q. And when such does transpire the rates in that particular have been large enough to pay for all the cost of operation and the interest on the bonded debt and dividends, and in addition to that added so much to the actual physical properties of the road, has it not? A. Yes.

Q. And the rates have been enough in excess of the other things to do that when such things transpire? A. Yes.

Q. You said this morning as I understood that rate making was a judicial question. Perhaps I misunderstood you? A. No, sir.

Q. But if you did say that, will you be good enough to clarify that a bit and explain what you meant? A. I said it was a judicial function, that here was not any hard and fast rule for it.

Examiner Brown. What you meant by the use of the word judicial was a matter of judgment?

Mr. Ripley. Yes.

Mr. Atwood. Judicious is perhaps what he meant.

Examiner Brown. Yes, that it was a matter of judgment.

Mr. Ripley. Well, yes, judicious is perhaps a better word.

Mr. Atwood. If the Commission will excuse us a moment, there are some other matters we would like to discuss. Perhaps we can reserve them until later.

Examiner Brown. I want to say now, gentlemen, that I want you to hasten along as rapidly as possible.

Mr. Atwood. Of course you recognize that these are matters that we cannot anticipate and we have to do the best we can.

Examiner Brown. Yes. I want you to hasten along as rapidly as possible, and I give you warning now that if you do not, we will commence earlier in the morning and will sit all day and take evening sessions, and you can govern yourselves accordingly.

Mr. Norton. Is there any further cross-examination?

Mr. Atwood. As I said, Mr. Examiner, it is my purpose with your permission when we get some of these things which we have not now and which they have kindly agreed to give us, to ask some other questions, but there is one question in my mind which I can dispose of now.

Small Revenue from New Rates.

Have you stated the increased amount of revenue you anticipate will result to your road if these rates are permitted to go into effect?

Mr. Ripley. I said this morning it was very inconsiderable.

Mr. Atwood. The gross in your judgment is how much? A. The gross amount involved?

Q. The gross increase? A. In the case of our road it is so little that our people estimate it as being possibly $150,000 to $200,000 a year.

Q. That is not a factor sufficiently large to be of serious moment in the problem of your railroad life? A. Not at all.

Q. Have you had prepared by any of your accountants, auditors or rate makers, whatever the proper designation is, any schedule or computation which causes you to arrive at that conclusion? A. No.

Q. I know of course you cannot do all those details yourself, and it must be done by somebody. A. We have not attempted to do more than make an estimate of it, but our freight people tell me that is about where it will land.

Q. You are now speaking of the amounts given you by those in charge of the freight department? A. Yes.

Q. That is their estimate, and you have confidence in their judgment? A. Yes.

Examiner Brown. That as I understand it only incidentally

affects your line from Chicago to Kansas City, the advanced rates now under consideration?

Mr. RIPLEY. Yes.

Examiner BROWN. It would not affect you west except perhaps as the advance might be the base for rates you carry further on?

Mr. RIPLEY. That is all.

Mr. ATWOOD. I recognize you might not have accurate knowledge of this, because it is a special matter, but have you any knowledge about the shifting of classifications within the last four or five years? A. Only a general knowledge.

Q. Have you any such knowledge which enables you to know what has been the increase of revenue as the result of raising the classification of third class into second and second into first? A. No. I think some such computations have been made.

Q. I think that is all, with the privilege you have been good enough to give me of asking some questions tomorrow.

Mr. THORNE. I have a few questions. You have given some extended testimony this morning in regard to the increase in operating expenses including labor, taxes and safety appliances. I do not know whether you have included taxes as operating expenses; increased cost of engines and various other items. Have you made any totals of those increases for any definite period of time, or is there just a general summary of different increases in cost that you have named? A. You are speaking of material or labor?

Q. All, have you totalled the whole increase?

Mr. NORTON. Another witness will do that.

Mr. RIPLEY. We will give you another witness who will answer that question.

Mr. THORNE. You, yourself, then, have made no comparison of increases in expenses to increase in earnings? A. I have read them there, but do not feel competent enough to testify.

Q. Do you know whether your expenses have increased more than your earnings in recent years? A. I know that our expenses have increased more than our earnings.

Q. You say the aggregate amount? A. Yes.

Q. During how long a period of time? A. Take last year.

Q. It was greater than ten years ago? A. Oh, yes.

Q. You say your margin of earnings above expenses last year was greater or less than ten years ago? A. Our margin

of expenses above earnings last year was much greater than it was ten years ago.

Q. Then your earnings have increased much more rapidly than your expenses in the past ten years? A. No, that does not follow. We have a very much larger interest charge. We have $32,500,000 more in the property now than then.

Q. I was not talking about interest as compared with the investment, but about gross earnings. Are not your net earnings greater than they were ten years ago, or last year, or any year prior to it? A. No.

Q. What were your net earnings last year? A. Our net earnings last year amounted to—you are talking about the year ending the 1st of July, the year 1910?

Q. Yes. A. $32,000,000.

Mr. Lyon. That is system figures?

Mr. Ripley. That is system figures, net.

Mr. Thorne. Is that net earnings or income? A. Net.

Q. Net earnings? A. Yes.

Q. What were they ten years ago? A. Ten years ago would be in 1900; $17,000,000.

Q. So they have increased about $15,000,000 during that time, have they not? A. Yes.

Q. Almost double? A. Yes.

Q. You have described increases— A. Our mileage has doubled also.

Q. Your mileage has doubled also? A. Yes.

Q. Have you your net earnings per mile last year? A. Not on this statement.

Q. Ending June 30th, 1910. A. I know substantially what they were, however.

Q. What were they? A. $3,148.

Q. What were they ten years ago? A. Very much less. I should say—I will not attempt to say, but somewhere in the neighborhood of $2,338, I think.

Q. Your net earnings per mile of railroad have increased very greatly in recent years compared with former years, have they not? A. Our net earnings?

Q. Yes. A. Yes, they have increased a good deal.

Q. Then these added expenses which you have stated have been added during recent years in proportion to traffic handled, were really decreased expenses, were they not? A. No, they were not.

Q. Your operating expenses today in proportion to your traffic are less than your operating expenses in proportion to

your traffic last year or any prior year, are they not? A. Our expense of hauling a given number of net ton miles is less, that is true; but as I have already stated, it has required a vast amount of money to accomplish that.

Q. Yes, that is true. You have given here a statement of the amount of money you had invested in your property for different years. Did you yourself verify this statement? A. No.

Q. Why I want to know is, what were the factors which entered into the value? For instance, does this $579,000,000 you give for 1910 on Exhibit No. 1, represent increased cost of the facilities and all these other matters you have testified to? A. I can tell you what it ought to represent, that is I can tell you about how much money has been appropriated each year.

Mr. NORTON. What year did you speak of?

Mr. THORNE. The year ending June 30th, 1910.

Mr. NORTON. What is your question about June 30th, 1910?

Mr. THORNE. I will withdraw the question, as he does not answer the question the way I gave it. I will get at it another way. What was your mileage in 1910, system mileage? A. About 10,250 miles, average.

Q. Your average cost of your property at the present time per mile is greater than it was ten years ago? A. Yes, sir.

Q. And the cost bears what relation to your capitalization, any at all at the present time? A. About $250,000,000 of our total capitalization of $579,000,000 is money that we have spent in the last 15 years and which we know all about and know where it went, that it represents dollar for dollar cash.

CAPITALIZATION AND EARNINGS.

Q. Your total capitalization at the present time is $579,000,000, is it? A. About that.

Q. Then it approximately represents the investment? A. Yes, it represents exactly the investment of the present company. Now, I cannot go back far enough into the annals of the old company to say exactly what relation its capitalization bore to its cost, but substantially the property has cost all its capitalization—all it is capitalized at.

Q. You stated in your testimony that your income has been for the year ending June 30th, 1910, approximately six per cent. on that investment. A. No, sir; 4¾.

Q. 5.58 per cent.

Mr. Bailey. 1910 only?

Mr. Ripley. I thought you said the average, that is right; 5.58, that is right.

Mr. Thorne. Your idea is however that that ought to be about 12 per cent.? A. Yes, it ought not to be less.

Q. It ought not to be less than 12 per cent.? A. From 10 to 12.

Q. And this increase of $150,000 to $200,000 which you speak of is merely a step in that direction, is it not? A. Oh, you mean this increase in rates?

Q. Yes. A. That is merely a step.

Q. You want ultimately to make that other possible, if you can? A. I do.

Q. Your idea is, then, that the revenues of your railroad ought to be increased at the present time about $32,000,000 a year? A. Oh, no.

Q. Well, in the income of $32,000,000 at the present time, and it is only six per cent., and you say it ought to be 12 per cent.

Mr. Norton. His testimony is on the capital stock.

Mr. Thorne. If that is 6 per cent. your idea is you ought to have another six per cent. to put back into improvements? A. You are mistaken. What I said is we ought to earn at least six per cent. on our common stock. Common stock represents only—this $32,000,000 represents only a portion, only $263,000,000 of common stock out of the $579,000,000. You have confused capitalization and common stock.

Q. Your idea is not that you should earn 12 per cent. on that investment? A. 12 per cent. on the stock is what I said.

Q. On the stock? A. Yes.

Q. And your idea is that the stock ought to represent the investment, is it not? You said that a few moments ago? A. Oh, no. I said I would like to see all the capitalization turned into stock and would like to see future capitalization made by sales of stock rather than by sales of bonds.

Q. Well, then, you maintain at this time that the real increase ought to be six per cent. on about half of that capitalization which you have, that being in the neighborhood of $15,000,000 or $16,000,000 a year. A. It would represent an increase of about three per cent. on $263,000,000, that would be about $7,000,000 a year that we ought to have more money.

Q. And that money should be put back into the property, that is your idea? A. Yes, sir.

Q. And then, later you should increase the capitalization of your property by that amount? A. I did not say that at all. I said that is what ought to go into the property without being capitalized.

Q. At any given time what will be a fair method of determining what your earnings should be in comparison to your stock? At the present time what should be that relation? A. Well, my contention has been that we ought to earn enough so that we can do the things that are required of us out of current income without being obliged to mortgage the future, which we never have been able to do and the other railroads are not able to do.

Q. With regard to these improvements which you refer to that do not earn revenue or make any earnings for your road, these deposits in Kansas City and Chicago, are they of a temporary nature or permanent nature? A. They are permanent as much as anything of that kind can be permanent.

Q. So that the next generation will get some enjoyment the same as the present? A. I do not know about that. I remember when all these depots were built in Chicago and they were very substantial buildings and it was supposed they would last—

Q. Is it your expectation that this railroad investment of nearly $30,000,000 or whatever it is, will be torn down before the next generation? A. I think it is not at all impossible that the entire business will be obsolete in 40 years. I have seen these stations built 25 or 30 years ago, and they are now being condemned by everybody who uses them and there is a constant howl in the papers for a new station.

Q. So the marble palace at Kansas City you expect to be removed in 40 years?

Mr. Norton. He did not say that.

Mr. Ripley. No, but it is not impossible, however.

Mr. Thorne. The probabilities are not that at all? A. Stranger things have happened. No, I do not think the probabilities are.

Q. And the probabilities are that the marble palace you are speaking of will be enjoyed by the next generation as well as the present, and the benefits will be derived from it, is not that the probability? A. I think the probability is that that will be there 40 years from now, that is the nucleus of it will be there. I expect it will be twice as big.

Q. If that will be there for the next generation, should not

the next generation bear the burden of building that depot? A. Yes, help; that is exactly what I said.

Q. Should not it then be capitalized? A. In part, yes, but it is all capitalized as it stands, and I said it should not be all capitalized.

Q. What portion of it should not be capitalized? A. I should say that if you assume that in 40 years or 50 years it will be obsolete—

Q. But we are not assuming that. A. Well, say 100 years. I should say that a certain portion of it, the capital should be amortized by spending so much money every year on principal.

Q. But the cost of building that depot should be spread out over that 100 years? A. Surely.

Q. So that the cost of these terminals should not be borne out of the earnings last year? A. Oh, no, nobody has proposed such a thing as that. I think that is quite true.

Q. But should be spread out over quite a period of time? A. Yes. But the truth is that the necessities of the railroads as they are now involve the borrowing of the entire money and throwing the entire burden on posterity, and bonds are sold for 50 years and do not come due until then.

Q. Do you have any detailed statistics there in regard to the increase in your net earnings, or are you going to give that later? A. We will give you the increase in net earnings, increased expenses, and all that sort of thing.

Mr. Norton. By another witness.

Mr. Lyon. In regard to this proposition of a station at Kansas City, do they provide any fund for retirement of those bonds? A. No.

Q. They just put a burden on future generations? A. Yes.

Q. You have expressed the view several times here that that should be borne out of present earnings of the companies. A. A proportion of it.

Q. I mean a proportion? A. Yes.

Q. After that is borne out of the present earnings of the companies should that be capitalized? A. Well, that particular class of expenses in so far as it is borne out of earnings, no, I think not. I think a good many railroad men might differ with me on that, but I think there should be a very liberal expenditure of earnings uncapitalized for all those things.

Q. And when that property is then paid for by the public

through the freight rates, that should not be considered in making the future freight rate, the investment the public has made? A. It should be disregarded as an investment of course, if it does not appear in the cost of property.

Q. Does that apply to other improvements which your company makes on its lines? A. It ought to.

Q. Then it is your opinion that enough should be collected from the public from year to year to gradually pay for the railroad? A. Oh, no, no.

Q. Well, let us understand each other then. A. That would be of course an impossibility. I said that the ideal way, or the way I would do things if I could, would be to collect from the public perhaps as much each year as would equal an amount of dividends we paid, and to invest it in the property without any additional capitalization. Now, that will not take care of the things that have got to be done and won't come anywhere near it. Assume if you please that we pay $10,000,000 a year in dividends, and we collected another $10,000,000 and put it into the property, we would also have to borrow $40,000,000 or $50,000,000 a year for other purposes in addition.

Q. But take the condition of a road, we are assuming as the case where you have a dividend of $10,000,000 and you collect from the public an additional $10,000,000, and that pays for all the necessary improvements demanded by that particular line of railway. A. Well, it might.

Q. I said assume that it would. A. Yes.

Q. Then in the future, in determining the rate, you would not consider the value of that property acquired through the $10,000,000 taken from the public previously for that purpose? A. No.

Q. And then your rates would be based upon the original investment? A. My rate would not be based on any investment whatever.

Q. I understand, but I mean from those who possibly have a different view and following the usual method of determining what should be the return upon property or an investment, they do take into consideration, and is to that class of people you would not have them consider this money taken from the public and invested for public purposes? A. No. the public would get the benefit of it and get much the best end of it.

Q. It is their money and they have invested it, and you would not expect any return upon it? A. No.

Q. Therefore if any carrier in the past has collected more than what would be termed a reasonable return upon the investment, and had reinvested those unreasonable returns in the property, would you expect the company to earn a dividend from those investments? A. I do not think there is any such instance on record. I do not know of anything of that kind.

Q. I know, of course. Possibly you do not know of such an instance, but there might be one. It has been so stated, and I think some of the companies' reports possibly will show it. But assuming it is a fact, would you think, sitting as a public officers in fixing the rates for the people from whom these unreasonable rates have been collected, that you should fix a future rate upon the capital acquired through those unreasonable charges? Will you take it thus far? A. Perhaps not, if it was a clear case that there had been any unreasonable charges. I refuse to consider the possibility that there has been any such things as unreasonable charges in this country up to this time. I mean charges that are unreasonable in themselves. I do not say that there may not have been discriminations here and there as to localities.

Q. You have given your definition of a reasonable rate and it has been gone into quite at length and I shall make my examination as brief as possible; but you say that rate under which the traffic moves freely, regardless of cost and investment. Your company had advanced a large number of rates applicable in the territory between Chicago and Kansas City which are now under investigation? A. Yes.

Q. In determining what those rates should be between all the points and upon all the commodities involved is that the factor which you considered, the value to the shippers? A. I do not think anything else has been considered.

Q. Well, did you consider that as a whole, or did you take up each case? A. I think it has been considered as to each case. Now, personally I have not considered those things except in gross.

Q. But you think your officials and your subordinates took up each of these cases and considered that the value of the service had increased since June 1st, which I believe was the time of the increase of the rates. A. I think they did.

Q. Can you tell me how they arrived at that conclusion, what were the factors which convinced them that the value to the shipper had increased? A. I think perhaps I did not understand your question. I do not think that they consid-

ered that the value of the service to the shipper had increased between two days or between two months, but I do think that they thought that the price they were charging for their service was inadequate considering the value of the service to the shipper, and that it had been inadequate for a long time.

Mr. Norton. You stated on the direct examination that the rates had gone down too low.

Mr. Ripley. Yes.

Examiner Brown. That is, putting it in your own words, you now consider that the traffic will bear the higher rates which you have fixed, is that the idea?

Mr. Ripley. That is the idea.

Value of Service to Shippers.

Mr. Lyon. Then I understand so far as the Santa Fe Company is concerned, from all your testimony given here today, that this increase in rates is not asked for by your company, or proposed by your company, because of any increased operating expenses but solely because in the opinion of the officials of your company the value to the shipper has changed in the last few years. A. No. In the first place I think that the rates are lower than were ever warranted on the theory of the value to the shipper. I think they have been forced down in the past by pressure and by competition, so I do not think the value of the service has changed to the shipper except that the commodities are all worth more money; consequently the freight is a smaller percentage of the cost than it ever was before. To that extent the value of the service to the shipper has changed, but as I stated in my first examination, one moving cause was the fact that we needed more money.

Q. Then I understand your position is as now stated that in the past you think the rates in this territory have not been sufficiently high? A. I think so, yes.

Q. And that now is the time at which they should be raised? A. I think it ought to have been done long ago, but now is better than later.

Q. And those rates have largely been fixed in the past when there was no regulation of carriers in any substantial manner? A. That is true.

Q. And in your opinion the result of operating railroads in this section without regulation, or in the absence of regu-

lation, has resulted in not making a proper return to the carriers? A. I do.

Q. And that now that we have regulations they should be put upon a paying basis, is that your opinion? A. Yes.

Q. If you were sitting as the Interstate Commerce Commission to pass upon the reasonableness of these proposed advances, regarding the shipping public and the carriers interested, how would you determine this value of the service? What method would you go through? We are obliged to have something to go upon here. Whether this matter of regulation is right or wrong, that is a burden placed upon the Interstate Commerce Commission.

Mr. NORTON. He has admitted it to be right—

Mr. LYON. I will conduct the examination, Mr. Norton. And we have it to do. I think heretofore it has been generally considered that the cost of performing the service and the investment in those things which are used in the public service were elements which should be taken into consideration, but you say no. A. I did not—

Q. How can you arrive at it? A. I did not mean to be understood as saying no to the proposition that all those things would have to be considered, and I do not think I said so. I said they were factors to be considered, but in my judgment inconsiderable and minor factors to be considered. The question you ask is a very difficult one to answer, that is, the question, sitting as a judge between the shipper and the railroads, how I would attempt to judge as to the value of the service rendered to the shipper. But I think that an inquiry as to the value of the commodity in question, the places where it is manufactured, the places where it is sold, the prices it is sold at by the manufacturer and by the merchant, the character of the product itself and the competition that it meets with from other sections of the country, are far more important factors than the question of the capitalization of the railroads or their cost of doing business. The freight is such a bagatelle, it is such an infinitesimal proportion of the value of most commodities that there is not the slightest danger of getting any rate too high from the standpoint of what it is worth to the shipper. I do not mean to state that without qualifications. There will be certain qualifications to that; but as a general principle that is so. You take any of the necessities of life. Take if you please flour; an addition of 5 cents per 100 pounds to a flour rate is $1 a ton; that is a very large item to the railroad companies. What does it

amount to in the *menage* of any individual family? The average family of five persons will use how many barrels of flour a year? Two a year?

Mr. Dawes. (Of the Chicago, Burlington & Quincy.) A barrel per person per year.

Mr. Ripley. That is five barrels; that would be 50 cents on the flour they would use, assuming they paid it. Nobody has suggested, that I know of, the raising of the rate on flour $1 a ton or 5 cents per 100 pounds. Nevertheless that is all it would amount to. It cuts no figure whatever. The rate on dry goods is a large item to one big wholesale dealer, what he pays on his dry goods. It is no item at all to the consumer, and he would not know of it if he was not told of it. Take heavier things like a keg of nails, which weighs 100 pounds; nobody would ever dream of raising the rate on nails, so far as I know, more than 2-1/2 cents; but supposing they raised it 5 cents per 100 pounds, one-fifth of a cent a pound on nails, and other things in proportion.

How to Fix Rates.

Mr. Lyon. Do I understand from that, then, that if the Commission should make an investigation as you say of every commodity which these carriers are now raising the rates upon between all points, and investigate the labor question and the manufacturing question and all the infinite number of questions which enters into the commercial conditions of the country and should further investigate and find that the increased cost of a pair of shoes to the consumer is small, having determined that as a fact, that it is small, that therefore they should permit the rates to go into effect? A. Yes, certainly. When you consider that course I am discussing merely these advances now and trying to impress the idea of how infinitesimal they are—there is nothing which has been asked for that will in the slightest degree impede commerce.

Q. That is your conclusion? A. Yes. Now let the Commission demonstrate whether that is true or not.

Q. You say if the Commission should find when divided up among the ninety millions of people in this country, that the cost of the increase to each one on each particular commodity is small, therefore, they should allow the increases to take effect? A. Yes.

Q. That is your final conclusion? A. Yes, I do not mean by that they should deliberately levy a tax on ninety million

people for the benefit of bloated corporations; but considering the general conditions of the railroad business and the infinitesimal burdens that these proposed advances lay, there should not be any hesitation.

Q. But if the bloated corporations, to use your own term, impose this burden, you think the Commission should not interfere with it? A. I certainly do.

Q. You have stated very positively here that the question of the rate is a very infinitesimal part of the movement of freight in this country? A. Yes.

Q. Do you speak that advisedly? A. Yes.

Q. Do you know the cost of coal at the mine, at the mouth of the mines in Virginia? A. Well—

Q. Well, just answer those questions. A. Yes, I do. Well, no, I won't say I do either.

Q. Do you know the cost of coal at the mouth of the mine in Illinois? A. Yes.

Q. How much has your company bought coal for at the mouth of the mines in Illinois? A. From $1.40 to $1.65.

Q. Would you be surprised to know that some of the companies have bought it as low as 40 to 60 cents a ton in Illinois at the mouth of the mines? A. No, I should not, because take coal in the southern part of the state it is mined very cheaply. I suppose in the Big Muddy District it is mined very cheaply.

Q. That has been the testimony of your own railroad's witnesses in cases I have heard. A. Yes, I suppose that is right.

Q. Do you know of the cost of that coal laid down in Chicago? A. Yes, in a way.

Q. What is it? A. It has been $2.10 or $2.05; I suppose now $2.20 to $2.25 perhaps.

Q. The cost of the commodity at the point where it is produced is 60 cents, and laid down in Chicago it is $2.20, and you say the difference between 60 cents and $2.20 is not material to the shipper, is that your position? A. No. In the first place what I was talking about was the rates on merchandise, not the rates on coal and lumber, and they have not been discussed or touched upon and they are not in this inquiry.

Q. This is a commodity list which is involved here. A. Coal?

Q. I do not know whether coal is involved particularly. A. No, not at all.

Q. The cattle rate is involved. A. The cattle rate is involved.

Q. And the grain rates are involved. A. To some extent, yes.

Mr. Lynde. (Of the Chicago & Northwestern Railroad.) The cattle rates are only involved in a very small way; it is the rate from Kansas City to St. Louis.

Examiner Brown. I do not know whether—

Mr. Lyon. It is not important. I know there are a vast number ofcommodities. I am not only handling this case, but the Official Classification case also. A. I did not mean to say that the freight rate did not cut a figure on coal, because it does. I was talking about merchandise and specified merchandise particularly.

Q. Your answers then are limited to the question of merchandise? A. Oh, yes.

Q. And it is only in those cases—and by merchandise I suppose you mean first class freight. A. All classes and commodities.

Q. Some commodities move under classes? A. Yes, sir.

Q. Steel moves in Official Classification territory, fifth class. A. Yes. What we are discussing now is the number of commodities which come under this tariff.

Again the Public's "Burden."

Q. You have been giving some general testimony here, and it left the impression on my mind that the freight rate was a very small matter to the public. A. So it is.

Q. And on all commodities, taking them as a whole. A. Oh, no, because on coal and lumber and brick and a lot of those things it makes quite a difference; but taking practically all package freight, it does not cut any figure.

Q. Is not package freight a very small part of the movement of freight in this country? A. No, it is quite a considerable part.

Q. What percentage of it is package freight? A. It is pretty hard to speak of that without getting up figures, which I have not got by me.

Q. Is it not a fact that with many of the railroads of this country that more than 50 per cent. of their traffic is coal? A. Yes, but that is not true of any of the railroads in this territory we are talking about.

Q. Then you want this testimony restricted particularly to this question of merchandise when you say that that should be considered? A. Yes.

Q. You do know as a matter of fact that the citrus fruit

moving from the west to the east, for instance, the freight rate is a very large part of the value of the commodity? A. Well, not very. Of course that moves a very long distance and is quite an item.

Q. And all the perishable products from the south, the freight rate constitutes a very large part of the movement? A. I think so. Those things are not in controversy here.

Q. And nearly all the staples of the country, the freight rate is a large part of the final cost to the consumer? A. I would not say so as to all staples.

Q. What would it be with wheat and corn? A. Well, with wheat $1 a bushel, and the maximum rate possible 20 cents, that is the maximum, but the bulk of it moves at very much less than that, about one-fifth in that case.

Q. What is the corn rate? A. The corn rate I suppose the average rate all through this territory is maybe as high as 18 cents per 100.

Q. And the value? A. About 60 cents a bushel. That 18 cents would cover about two bushels or about 9 cents, and any proposed advance—an advance of 3 or 4 cents a hundred would cut a very small percentage on the value of the corn.

Q. Now, the lumber moves into this territory from very long distances, does it not? A. Yes.

Q. And the rate is a very material part? A. Yes, in the case of lumber I suppose the average rate is probably $4 a thousand.

Q. $4 a thousand? A. Possibly.

Q. That constitutes a large part of the value from a mill in the south or the extreme west? A. Not a very large part, but perhaps 20 to 30 per cent., depending on the quality of the lumber, and on some it is not 5 per cent.

Q. You would consider that a very material part of the value, 20 to 30 per cent.? A. Yes, but that is not under consideration in these cases.

Examiner Hillyer. Do not these large commodities like coal and lumber in which you change the principle of rate making enter the cost of all these package articles on which the rates are increased? A. To a limited extent they do, yes, sir.

Q. Take the bills of a manufacturer, in a large number of factories, the coal bill and lumber bill constitute about all the expense the factory has? A. I do not see what bearing that has in this case, since lumber and coal are not entering into consideration.

Mr. Lyon. You are making some general statements as to whether the rate constituted a part of the burden upon the public and said it did not, and as you stated before, this $150,000 involved in this case was only a beginning? A. That is right.

Q. And that you wanted to increase your profits from six per cent. to twelve per cent., and that the $150,000 involved in the investigation here was infinitesimal almost, and did not concern the Santa Fe very seriously except as a principle that is being established? A. That is right.

Q. And therefore these general questions which are being asked, although they may not have a direct application to the particular tariffs here under investigation, are certainly to be considered in the general advance which has been proposed by the Santa Fe and other roads. That was the reason I asked those questions.

Depots and Public Vanity.

Now, you stated something in regard to stations being built for the public merely for their pleasure and satisfaction and not for utility purposes, did I so understand? A. You did.

Q. Is that the reason why the stations were built by the Santa Fe in the deserts of Arizona and New Mexico? A. Mainly, yes.

Q. Do you mean to say that the population along that line, taking Ash Fork, for instance; I think you have a very handsome station there; I was there last year. Do you say the population of the municipality there demanded that you should construct a station of that kind? A. No, not in a case of that kind, because there was nobody there before but—

Q. Now let us take that one. You say there was nobody there. I know that because I was there. What caused them to build that station? A. Well, in the first place we had to build a fireproof building there because the quality of coal we burn there will set fire to anything which is not made of steel or iron. We had to establish a restaurant there to feed people in and it is a junction where passengers debark going to Southern Arizona, and we had to have some place for people to stay, so we had to provide for the housing and feeding of quite a considerable number of people, and we built a building that I should not call a palace at all, but it is a very substantial and comfortable building. And, in accordance with our policy, we felt that we had to do it and we had better

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do it well; but that is not one of the sort of things that I had in mind when I spoke about building our stations.

Q. What did you have in mind? A. I had in mind a great many of their stations that they have been obliged to build, and are constantly being importuned to build all over the country to gratify the vanity of a particular point.

Q. Well, now, will the cost per passenger of handling passengers through your new Kansas City station which I have heard of first here to-day, be greater or less than at Ash Fork per passenger? A. Than at Ash Fork?

Q. Yes, where you have voluntarily made this change? A. We don't handle any passengers, practically speaking, there, through Ash Fork, through the station at Ash Fork, not to amount to anything.

Q. The people get off there and eat? A. The people get off there and eat and get back on again, yes. That is not properly a depot expense.

Q They do the same thing in Kansas City, do they not? A. Yes.

Q. You know well enough what I mean, Mr. Ripley. You have stated that the Kansas City station and these other great stations that are being erected all over the country are not built because the railroads think they should be built for railroad purposes, but the implication is given that they are built for the vanity, because of the vanity of the towns in which that road operates? A. Very largely true, yes.

Q. How much of the Kansas City station now being built by eighteen carriers, I understood you to say, did I not? A. Sixteen or eighteen.

Q. Sixteen or eighteen carriers have united to build one place there where passengers may disembark? A. Yes.

Q. How much of that station is built for vanity and how much for substantial purposes? A. I have stated a little while ago that of the three million dollars that is going to be expended in the building, I think a building costing one hundred thousand dollars would answer all the purposes so far as utility is concerned.

Q. You mean that these eighteen railroads in Kansas City— A. Yes.

Q. Could pay one hundred thousand dollars, and for that amount build a station that would answer the purpose as well as the one costing three million dollars? A. Not as well, no, in one sense, but as well for practical purposes, yes.

Q. As well for practical purposes? A. Yes.

Q. By that you include all that may come to a railroad or system of railroads from having proper facilities for the handling of traffic? A. Yes. Perhaps I had better amend that and say two hundred thousand dollars; but an insignificant expense compared with what is being spent there.

Q. I have seen one erected at Washington, D. C. They of course have room in them for the proper and expeditious handling of traffic, such as mail, express and passengers? A. Yes.

Q. Do you mean to say you have considered all of that in your hundred thousand dollar proposition? A. Yes.

Q. And all of those conveniences could be met in a hundred thousand dollar station? A. I modified that and made it two hundred thousand dollars. The rest of it is frills more or less.

Q. Do you think that the railroads operating into the Pennsylvania Union Station here in Chicago are operating into that station in the most economical method from a railroad standpoint? A. No, not at all.

Q. Do you think they ought to have enlarged facilities or decreased facilities? A. They ought to have increased facilities.

Q. You think that they ought to spend money on that? A. I think they will have to spend money on increased facilities. I do not think, however, that they will earn any interest on what they spend, in addition to the investment they have there now.

Q. How do you determine a matter of that kind? A. It is a mere matter of opinion; I don't see how they can. They are not going to handle any more people, and there is no more income coming.

Q. You think there won't be any reduction of expense in handling it? A. No, I think there will be perhaps an increase in expense. I have no idea that the depot in Washington is conducted as economically as the various old sheds they had there before. It has imposed a tremendous expense merely for janitorship.

PASSENGER BURDEN ON FREIGHT.

Q. It would then be in the interest of the shipping public and the passenger traffic, not to have these improved facilities? I mean so far as economy in rates is concerned? A. Yes, if you are going to gauge economy in rates by expenditures, yes. So far as that is concerned you may say of the traveling public that the freight business is paying a portion of their expenses now, for there isn't a railroad in this

country, at least no railroad west of the Allegheny Mountains, whose passenger business and whose mail business, judged by any proper standard of the ratio of expenses to income, is compensatory. There isn't any railroad that is not losing money on the entire operation of its passenger trains west of the Allegheny Mountains. The freight is paying for it.

Now that is either a good thing or it is not. I do not know whether it is a good thing or not.

Q. You do not mean to say that your company tries to separate and make every movement of freight or passenger a paying proposition, do you? A. No, but I am saying that the gross passenger business and the gross mail business put together do not pay their proper share of our expenses and interest and maintenance.

Q. You mean by the proper share, when you figure out what you estimate to be the passenger expenses, that the passenger receipts do not equal that? A. Yes.

Q. That is what you mean? A. That is it exactly.

Q. You do not mean by that that it might be if you took the passengers and hauled them for nothing that the gross income of your company might be increased? A. Certainly not.

Q. Of course that is an extreme case? A. But that is a fact, that the freight business is paying a portion of the passenger expenses, and it is the same way with the depots. Public convenience comes first.

Mr. Norton. Mr. Examiner and Mr. Lyon, there is one question I want to ask Mr. Ripley before he goes. You put a question to Mr. Ripley as if he wanted to increase his dividends to the shareholders from 6 per cent. to 12 per cent. That was not the intent.

Examiner Brown. No, Mr. Lyon did not put that question. That was Mr. Thorne.

Mr. Norton. I think that Mr. Lyon has that understanding of it.

Mr. Lyon. No, he said he wanted to collect ten million dollars of dividends and lay aside ten million dollars for improvement.

Mr. Lyon. I understood you to say yesterday that these aesthetic improvements, such as stations in cities and elevated tracks in cities and that class of improvements did not materially work to the economy of transportation. A. Yes.

Q. Considerable sums have been spent that way in the last five years? A. Very large sums.

Increased Operating Expenses.

Q. Has your cost of operation increased in the last five years or decreased? A. Increased very much.

Q. You mean per unit of freight? A. Yes.

Q. The operating expense of the Santa Fe Line has increased since 1905, the ratio? A. Yes.

Q. The reports made to the Interstate Commerce Commission show that the operating expense of the Atchison, Topeka & Santa Fe for 1905 was 65? A. That is the ratio of expenses to earnings?

Q. Yes. A. Yes.

Q. And operating expense in 1909 was 59. I suppose you— A. I do not think that 59 is correct as applied to the System.

Q. I am now talking about the lines here under investigation, the Atchison, Topeka & Santa Fe Railway Company, not the System, not including the Gulf, Colorado & Santa Fe. A. The line east?

Q. Yes. A. Yes.

Q. Then it is a fact that the operating expense has decreased? A. No.

Q. What is the fact? A. That statement taken by itself would indicate that between these two years there was a decrease in the ratio, but that does not mean that the expenses had decreased; that means that the earnings in the matter here were so much larger that in spite of the increased expenses, the ratio is something less.

Q. Then it is a fact that the operating expense of a railroad is influenced by two factors, one of these factors is the economy of transportation and the other factor is an increase in the rate. A. The gross revenue.

Q. Increase in the gross revenue comes from an increase in the rate or an increase in the amount of product hauled? A. Increase in the amount of business, yes, sir.

Q. And therefore in the Atchison, Topeka & Santa Fe it is your opinion that there has not been a decrease in the cost of operating, but there has been either an increase in the rate or an increase in the volume of traffic, or both? A. If you take these particular years, there were no substantial increase in the rates, but there was a large increase in the volume of tonnage, which reduced the ratio of expenses, although individual expense was larger than it was the year before.

Q. But there is no question that the ratio of expense was

less in 1909 than in 1904 or 1905? A. I think that is true, but in 1910—

Q. I have not the figures for 1910, is the reason I did not speak of them. A. I have them here if you want them.

Q. Not just now. We hope to get them so as to finish these statements at the next hearing. A. They are here.

Q. I would be glad to have them if you will let me have them. We want them eventually.

(Papers handed Mr. Lyon by Mr. Ripley.)

Q. Now, Mr. Ripley, you say that in your opinion there has been no reduction in the cost of operation, as has been already stated? A. Yes.

Q. Do you know whether your line gets more freight moved for every dollars invested in labor now than it did five years ago? A. I have not figured that particular item. My impression is it gets less.

Q. Do you know whether it gets more for every dollar invested in material now? A. I have not made these figures.

Q. You have not made these figures? A. No. We have dealt with the totals; we have not analyzed that as finely as that.

Q. If it should be the fact that your company gets more for every dollar invested in labor today than it did five years ago, and it gets more for every dollar invested in materials, would your opinion be the same that these improvements, which have been made in the way of improved stations, elevation of tracks, and so forth, have not affected the operation? A. I should say that these things had very little to do with it.

Q. But have something to do with it? A. Very little, an infinitesimal amount.

Q. How would you determine which of the factors are infinitesimal or which are not infinitesimal, just your opinion? A. Just our knowledge. In so far as we have been able to overcome the constant increase in cost of labor and that sort of thing, we have been able to do it by handling a larger business, handling it in a more wholesale way, increasing the stability of our tracks and enlarging our facilities and increasing the size of our trains and the size of our engines. Such economies we have been able to practice have come from that. They have not come from that other class.

Q. Then the statements made to Mr. Norton yesterday about the doutfulness of the advantage of increasing the size of your locomotives and cars is to be qualified now? A. I did

not say there was any doubt about increasing the size of our locomotives. There was, I said, serious doubt about increasing the size of our cars beyond a certain amount, and I did not say that we had derived no economies from these things. I said there were pages on the other side which in a measure balanced those things. I did not say they fully balanced.

Q. Then, as a matter of fact, these things have been the causes of the reductions in cost of operation? A. Yes. If we had not done those things we should not have been on earth today.

Q. Then no mistake has been made in enlarging your locomotives and cars? A. Oh, no.

Q. Is it a fact that the carload minimums have been changed in recent years, increase? A. Well, they have been slightly increased in the matter of interstate rates, governed by the Commission; I think there have perhaps been more increases than decreases. In fact I do not know that the attitude of the Interstate Commerce Commission has been objectionable in any way in that respect. The States, however, have refused as a rule to allow us the benefit that we ought to have derived from the larger cars.

Q. Do you know what proportion of your business is interstate and what state? A. I cannot answer that question at the moment.

Q. Well, something in excess of 75 per cent. is interstate, is it not? A. Taking the business of the System I should doubt whether 75 per cent. of it was.

Q. But whatever that percentage is, the tendency has been to increase the carload rate. A. No, not to increase the carload rate.

Q. The carload minimum, I should say? A. Yes, to increase the minimum.

Q. And that of course makes more freight hauled at the less than carload rates, paying the less than carload rates? A. No, I do not think so.

Q. You think not? A. No.

Physical Value of Santa Fe.

Q. On another line; you stated yesterday I think that the five hundred and odd million dollars of capital of your company did not represent its reproduction value? A. Yes.

Q. Just what did you mean by that statement? A. I mean it could not be reproduced for the amount it is capitalized at.

Q. Do you think the Santa Fe Road could be reproduced under any conditions? A. Well, no, not as an entity and as a going concern as it is now, no; but I am talking about the bare cost of replacing what it has.

Q. You mean by that, that if a new concern was incorporated and wanted to reach the same points that you do, that to buy the proper rights of way into great cities like Chicago and Kansas City and San Francisco and Los Angeles and various states along your road, they could not do it for $570,000,000? A. Yes.

Q. You do not mean that that at all represents the physical value of the Santa Fe Road? A. Well, yes, I think it does.

Q. By physical value you include the present value of the property— A. I simply value the property at its physical value, the value of the rails and ties and buildings and its equipment, its stock, its property in general, based on the same class of property adjoining it.

Examiner Brown. That is in other words, the question you now have you mind on is not what the Santa Fe System cost?

Mr. Ripley. No.

Mr. Lyon. But what it is worth today, is that it? A. Yes, I think—

Q. I did not ask you a thing about what it cost. A. I know that.

Q. I confined it strictly to your own words, the cost of reproduction? A. Yes.

Q. And as you said, you included in that, for instance, if there is a terminal in Chicago, what the value of that land is, based on the surrounding lands of the Santa Fe today? A. Yes, quite right.

Q. Have you any idea what proportion of that $537,000,000—what proportion of that would be represented by land values? A. I cannot answer that question at the moment, and I would hesitate to give an estimate.

Mr. Norton. What was that question?

(Question read.)

A. I think possibly if I was going to guess, and I do not dignify it with anything having a stronger name than a guess, I should say perhaps $45,000,000, forty-five or fifty million dollars.

Q. Then about $530,000,000 you figure as representing the reproduction cost, if that is a proper term? A. Yes.

Q. Of your system? A. Of property outside of the land.

Q. Property outside of the land? A. Yes.

Q. Have you any terminals in Chicago? A. Yes, we have quite large ones.

Q. I did not know whether the Santa Fe owned them or whether they leased them. A. The Santa Fe owns very large terminals in Chicago.

Q. What would you value those terminals at in Chicago, have you ever value them here? A. Why, we have a general notion as to their value. I think they are worth probably ten million or twelve million dollars.

Q. That includes the approach into Chicago, freight yards and the passenger stations? A. No, no freight yards; or at least very limited freight yards.

Q. What do you do with the freight yards? A. The freight yards are outside very largely.

More About Securities.

Q. Now, a question in regard to the stock, one or two questions. These convertible bonds were issued at about 104, I understand. A. Some of them were—No, I don't think we got 104. Possibly we did for the 5's. Let me see, I have got it here, I think. The issue of June 1, 1909, was sold at 104, $35,000,000.

Q. They were converted into stock, and what was the stock selling for at the time of conversion? A. Oh, various prices. I think between 110 and 120.

Q. Eighteen millions, I believe, was converted in 1908, wasn't it? A. I cannot answer that question.

Q. What was the stock selling for then, do you know, Mr. Ripley? A. I don't know. I don't keep track of the stock market.

Q. In 1908 and 1909 there was eighteen million converted, and that sold for between 110 and 120. A. I think that was the general range of prices, yes.

Q. In other words, if the company had sold the stock they would have realized 110 to 120? A. Yes. Of course we couldn't do it.

Q. You could not sell the stock? A. We could not.

Q. Was it sold at that? A. It was sold in the market at that.

Q. But you could not sell it in the market? A. Why, do you suppose with the market at 110 or 120, or any other fig-

ure, that you could sell an issue of $35,000,000 of stock without knocking the price down to par or below?

Q. I don't know. A. Well, certainly not. The bonds were sold because they were a bond. They were bought, I should say, because they were a bond and had the elements of security that a bond is supposed to have, plus a gambling chance to exchange for stock and sell the stock. That is why convertible bonds—why it was possible to sell them at all, and why, when the time came that the stock did acquire value, they were exchanged.

Q. You said the company could not do that? A. If the company had offered $35,000,000 of its stock at 104 or any other price it is altogether probable that the effect would have been to have depressed the stock below par.

Q. And yet it could issue the bonds at 104 and it would not have that effect? A. No. That is a very different proposition.

Q. Sir? A. Those are two very different propositions.

Q. Maybe they are; I am trying to get at what they are. A. I hope I have made myself clear on it.

Q. Not clear to me; it may be that you have made this clear, but I may be difficult of comprehension. This was a second mortgage bond and of course secured on the property, and you got 104 for that? A. I should not say it is a second mortgage bond. It is a lien on a large amount of property which has no mortgage on it. It is not a specific lien on any individual property, but it is a general lien on the property of the company.

Q. Wasn't there a first lien on the property of the company? A. Not all of it. The first mortgage bond does not cover all the property.

Q. I did not know whether the first mortgage bonds covered all the property or not. Then this was a first lien on a portion of the property and a second lien on the balance? A. Yes.

Q. And the stock would represent a lien on the ownership of all the property above the first mortgage? A. Oh, not above all the first mortgage, because there were several issues on various classes and various portions of the property. There was a large amount at the time bonds were issued, and at the time these convertible bonds were issued afterwards there was a large amount of unmortgaged property to which these bonds attached as a first lien. Perhaps I ought to say that

they were sold very largely on the faith of the securities in the treasury consisting of first mortgage bonds and stocks of auxiliary roads.

Q. They were put up as security for those bonds? A. They were not a specific lien, but the bonds were issued really on the faith of those securities.

Q. And there was of course no other lien against those securities? A. There was no other lien against those securities.

Q. And therefore they were a first lien on that class of security? A. Yes.

Q. And if these bonds had not been issued, of course the holders of the stock would have owned those securities? A. Yes.

Q. Or did own them? A. Yes. We have never seen the time, much as we would like to do it—we have never seen the time when we would have dared to offer stock to our stockholders even at par, because the issuance of such a large amount of stock would in all probability have had a very depressing effect on the market and on our credit.

Q. And issuing the bonds does not have that effect? A. No.

Q. Although formerly all the profits would have been divided among the stockholders? A. Yes.

Q. You can take out $35,000,000 in bonds and pay the fixed charge to the bond and that does not affect the stock? A. No.

Q. Is that true in finances generally? A. I think it is true, especially when you consider that you pay 4 per cent. on the bonds, and you pay 5 or 6 per cent. on the stock, possibly 6 per cent.

Q. Then if you have got a business worth $2,000,000,000 and you have $100,000,000 of first mortgage bonds on it, and $100,000,000 in stock, you can put $50,000,000 worth of second mortgage bonds on it and not affect the value of the stock? A. That is stating it rather broadly as a general proposition; but I observe that in almost all cases of industrial promotion or promotion of any kind of enterprise, the tendency is to, as far as possible, capitalize by means of low rate bonds, rather than by issues of stock.

Q. I acknowledge my ignorance as to railroad finances, but I know the principle is true in ordinary affairs. A. I am talking about financing in general. I think it is particularly true of industrial corporations that they get their capitaliza-

tion into bonds about as fast as they can in order to keep the stock among themselves.

Q. But as a result of this, anyway, the parties who got these bonds netted some six to ten million dollars or six to ten per cent. over what the railroads got for them by exchanging them for stock? A. I don't know to what extent they did, because I don't know how much they sold. The opportunity was there. Perhaps—I have no doubt that a large portion of them have got the stock yet. It is selling at 97½ and 98.

Q. But the opportunity was there? A. They did have that opportunity at one time.

Q. Were those convertible bonds taken by the stockholders of the Santa Fe? A. That particular issue was nearly all taken up by—

Q. By those who were interested in the property? A. By the stockholders.

Q. And they had the opportunity to transfer it afterwards at a profit? A. Yes.

Earnings in 1910.

Q. Now, Mr. Ripley, the report for 1910, and of course we have simply these monthly reports, the annual report of the road not having been filed as yet. A. The figures are before you in that system if you would like to take it up.

Q. No, those are for the System. I want the figures for 1910, and I have those figures here taken from our monthly reports, which show that the Santa Fe earned last year $10,200,000 more than it did the year before? A. That is right.

Q. And in order to earn that $10,200,000 it necessitated an expenditure of $10,563,000? A. It necessitated the expenditure of over $12,000,000.

Q. I am taking the reports as made to the Interstate Commerce Commission by the Atchison, Topeka & Santa Fe lines. A. I don't know what report that is. I am dealing with the System's figures.

Q. I am not dealing with the System. A. Well, I know about the System. I am not in the habit of dealing with it piecemeal, very much. The System report is before you.

Q. The trouble is I would be willing to follow the System, but as the Interstate Commerce Commission has no report made to it as a System, we are obliged to follow these things up on the lines in which the reports are got up. The line here involved is not the Gulf, Colorado & Santa Fe; it is the line starting from Chicago and known as the Atchison, Topeka & Santa Fe, and the figures I have no doubt are accurate, be-

cause they are taken from reports furnished by your office. A. I have no doubt they are.

Wage Increase.

Q. They show a decrease in net operating revenue of $362,000. A. The actual decrease for the System was over $2,000,000.

Q. I know nothing about that now; how do you account for that, if there is any accounting for it? A. It is accounted for by increase in expenses, of course. I can account—I think I can give you some light on that. Where is that wage scale statement, Mr. Norton, that you have got there? This does not show from year to year, 1908 and 1909 the wages?

Mr. Norton. I do not believe we have got that.

Mr. Ripley. I can give you later just the items where that comes in, but it was about, I should say, $2,000,000 of it in straight wages.

Mr. Lyon. In wages? A. Yes.

Q. For the year ending June 30, 1910, that the wages were $2,000,000 in excess— A. About that.

Q. From June 30, 1909? A. Yes.

Q. I understand by that statement that you mean that you paid for labor for the year ending June 30, 1910, two million dollars in excess of what you paid for the year ending June 30, 1909? A. That is my recollection. I don't wish it understood as being exact as to these figures.

Q. I understand, round figures. We have substantially the same figures. And during that year ending June 30, 1910—

Mr. Atwood. Is that system figures?

Examiner Brown. Yes, he is talking about the system.

Mr. Ripley. Yes, I am talking about the system. I cannot pick the thing to pieces as you have it there.

Mr. Lyon. It is all right, if you can not pick it to pieces the way the reports go to the commission I am unfortunate. That is all the figures I had to work on. But two million dollars is your system's increase in wages? A. Approximately, that is my recollection of it.

Q. And, therefore, the increase on the Atchison, Topeka & Santa Fe is something less than two million dollars, you do not know how much, but it is obliged to be less, that is true, isn't it? A. No, I think it would be—.

Q. Would it be more? A. If you are excluding the Gulf, Colorado & Santa Fe, as I understand you are?

Q. Yes. A. I think that their wage scale was not materially greater in 1910 than it was in 1909, because they had a very light business there and I think they employed fewer men. They paid more wages per man but they employed fewer men.

Q. We will put it this way, then: that all of your increased wages, the increase of labor, accrued on the Atchison, Topeka & Santa Fe main line last year. Do you admit that? A. Yes, I should say that was probable.

Q. Have you anything more to add? A. No.

Q. That is the utmost you could give, the most you could go on the matter we are discussing here? A. Yes.

Q. With that two million dollars extra labor, you earned ten million dollars gross revenue, didn't you? A. Yes.

Q. That is twenty per cent. of ten million, as a matter of mathematics? A. Yes.

Q. If the reports of the Atchison, Topeka & Santa Fe for a series of years show that your compensation to labor has been in the neighborhod of thirty-five per cent. of your gross receipts, gross revenue, then the payment of twenty per cent. to earn ten million dollars in 1909, would not appear to be unreasonable, would it? A. A very large proportion of the expenditures of a railroad remain fixed, notwithstanding that there might be a large decrease or a large increase in the earnings. Many of our expenses are not affected by our increase, and there is hardly any year that we could not increase our earnings $10,000,000 without increasing our labor more than a small fraction of that. We do not employ as a rule, when we have a large increase in our earnings, any additional help as to a large portion of our business; it takes more enginemen and more trainmen and more men in the operating department and some additional help at stations, but not very much, and it is notorious that we can increase our earnings ordinarily enormously without increasing our ratio of expense proportionately. That ought to be the case, but in the last two or three years everything has been against us.

Q. Then I understand your position is that as you increase your gross operating revenue you do not expect to increase your compensation to labor? A. We have increased our compensation to labor per man, per unit; but naturally there is a large number of our employes whose status is not affected by a considerable increase in the business. For instance I do not get any more salary when we earn $10,000,000 more, and neither do any of our general officers, and neither

do the majority of what you might call our stationary employes, although that increase in business affects the operation of the road and the running of trains and that sort of thing.

Q. Then I judge from your testimony that you did not take much stock in this fallacious doctrine that the carriers were entitled to more revenue because of any increase in the labor account? A. I certainly did. You have taken one year when the actual increase in earnings was $10,000,000. Now that is partly accounted for by the fact that it embraces a good many more miles of road; but the fact is that with that increase of $10,000,000 gross earnings there was an increase of $12,000,000 in expenses. The labor portion of that—you have pressed me for an estimate or guess of what that increase was, and I guessed $2,000,000.

Q. You think that is approximately correct? A. Yes.

Q. You are president of this great system, and you do not mean when you state a guess here that it is an arbitrary guess, but that is about the amount that the wages have been increased? A. I have never studied from that particular angle and especially from a view of a piece of the property. But we know that the wages paid each individual man have largely increased. How much the actual number of men employed has been increased by this increase of business of $10,000,000 is a very hard thing to estimate, and I cannot say at the moment what it is.

Q. The difference is that we do know, by the reports furnished to the Commission, just what the effect on the unit of movement is, and we find that to earn $10,000,000 last year additional you invested, from your statement, something less than $2,000,000 in labor, and that is about 20 per cent. A. Well, put it that way.

Q. While usually it takes 35 per cent. to secure you your unit. A. Well, we can probably increase our earnings $10,000,000 next year, or at least we could, without expending more than $2,000,000 additional for labor.

Q. That is the fact? A. Well, that is a fair statement, I think.

Q. Then if you want to increase any rates to compensate labor, it takes a very small increase in the gross revenue, because only 20 per cent. is necessary. Of all the increase you received, it only takes one dollar out of the five to compensate the labor? A. It depends entirely upon what the character of our increase is, whether it comes from additional tonnage

at very low rates or the same tonnage at high rates, and it depends upon the amount which we pay for labor directly, also, and what we pay in supplies, and all that sort of thing.

Q. Of course it depends upon all those contingencies, I understand. A. The 20 per cent. we are estimating as the additional amount paid to labor is what goes to labor direct; it does not bear on the question of what goes indirectly.

Q. Do you consider it proper railroading when you show an increase in your operating revenue of $10,000,000, to show that it takes more than $10,000,000 to earn it? A. Well, I do not think it is a happy condition, if that is what you mean.

Q. Yes, it is an unfortunate condition. A. Yes.

Q. And something unusual? A. Well, yes, I am afraid it is rather unusual.

Q. And you can attribute only $2,000,000 of that to the labor proposition? A. I should think so, about that; that is the direct labor.

Q. That leaves $8,500,000 to materials—the things that make up the operating expense of a railroad are two, are they not, material and labor? A. Yes, and the labor that goes into material.

Q. Well, your reports show your $2,000,000 cover all the labor that the Santa Fe has to concern itself with. The labor that goes into the cross tie that is cut in the woods by the farmer is taken care of in the price of the tie, and that is material. A. Yes.

Q. Therefore, there is $8,500,000 of material that you had to buy in order to get this $10,000,000 in revenue? A. That does not follow.

Q. Well, what is in error? A. Well, there are a great many other things that are not in there at all. For instance, not quite a year ago the longest tunnels on our railroad caved in, the one that we had been trying to carry for quite a while; it had been timbered, but there was no timber heavy enough to hold up the mass of earth that was on top of it. We had to go to work and re-line that tunnel with concrete from end to end, and it cost about $700,000. That labor was contracted; it does not appear in my labor sheet at all.

Q. It does not appear where? A. It does not appear on our labor sheet at all .

Q. It appears on your material account, though. A. No, it does not appear on our material account.

Q. Where does it appear? A. It was a contract job; it was let to a contractor.

Q. Does it not appear in your operating expenses? A. Yes, under the head of roadway and track.

Q. Then during that year before there was a tunnel which was in constant use for a series of years, and there was a material break in it, costing you $700,000 to re-line that with concrete, and that is all charged up to operating expense of 1910? A. It is. Where would you put it?

Q. I do not know, sir. I am trying to— A. We are liable to have another one next year.

Q. But you evidently have not had such a condition appearing in the years past, judging by your operating ratio, otherwise you would not have had any profits. I mean it would have cost you more to operate your road than the receipts? A. There is nothing more fallacious than the operating ratio idea. That depends on the volume of business done very largely, and on the elements, and the luck that you may have going through with them.

Q. Yes, I know, I have never found any figures which were not fallacious under certain conditions, and I presume these are the same kind; but they are furnished us by the railroads. A. Well, you asked for them.

Q. And the Commission does not keep the books, and we have to rely on them. A. Excuse me, but I think the Commission does keep the books.

Q. When you tore out this tunnel and re-lined it, did the Interstate Commerce Commission tell you how much to charge up to capital and how much to operating on that particular job? A. I think the Interstate Commerce Commission in that particular kind of work is permissive; it says we may if we please pro rate an extraordinary expenditure of that kind through a series of years.

Q. And you did not do it in this case? A. No, we did not, and we do not do it in any case, because we do not think it is safe practice, and the Commission does not order us to do it, it permits us to do it if we want to. That is, if we are so poor that we cannot possibly stand it in any one year, they permit us to pro rate it over a number of years.

Q. Then if a condition occurs which did occur this year, then it costs you more to do your increased business than the business was worth to you, it may come about by your failure—or in your judgment it was not necessary to pro rate these extraordinary expenses. That might be the cause,

might it not? A. I should rather take those things out of income as they occur, if we are able to do it; it is better financing, it is a better practice.

Q. I am not questioning your financing at all, but to be perfectly frank with you, we have all the railroads of the country and all of them show a net operating revenue increase but a very few, and among these is the Santa Fe. A. Yes.

Increased Cost Conducting Transportation.

Q. We find that in the year 1910, very unusual with the Santa Fe, one of the best operated systems in the country, I imagine, that in this year of grace, 1910, it cost them more to get their business than they got out of it, and I am trying to find out the reason, and I think you are giving the explanation of it, that you have charged to that year extraordinary expenses. A. (After examining paper.) There was an increase in the cost of conducting transportation alone, that is the mere running of trains between 1909 and 1910 of $5,000,000. That accounts for $5,000,000 of the $12,000,000 increase. That is the mere running of trains. Conducting transportation.

Q. Then your statement that $2,000,000 was for labor is an error, is it? A. You remember that I did not make that statement as definite, but as being in my judgment. I would have to examine those figures a little to verify that. I do not know exactly what the classification of labor is as rendered in the Interstate Commerce Commission, and whether it embraces station agents and all that sort of thing.

Q. It does embrace them. Now this $5,000,000 you said was increase for conducting transportation? A. Yes.

Q. Do you know how much of the cost of conducting transportation is labor and how much material? A. I can give you the items, if you please.

Q. I do not care for the enginemen separate from the firemen, but the labor separated from material. A. The superintendence was $885,000 against $709,000 last year. Despatchers was $605,000 against $508,000; the station employes were $4,179,000 against $3,682,000. There are some minor things here that all show increases. Yardmasters and clerks $320,000 against $267,000. Yard conductors and brakemen $1,168,000 against $952,000. Yard enginemen $666,000 against

$555,000. Yard enginehouse expense $206,000 against $179,000. Fuel for yard locomotives $780,000 against $598,000. Water for yard engines $73,000 against $45,000. Road engines $3,979,000 against $3,381,000, an increase of $600,000. Road enginehouse expenses $1,299,000 against $1,044,000. Fuel for road locomotives $7,325,000 against $5,775,000. Water $662,000—

Q. What was that fuel increase? A. $7,363,000 against $5,775,000; that is $1,700,000 about. Water $662,000 against $589,000. Lubricants $157,000 against $115,000. Other supplies $100,000 against $92,000. Road trainmen $4,046,000 against $3,441,000, $600,000 increase. Train supplies and expenses $1,319,000 against $1,146,000. Every item is increased more or less. Telegraphing $316,000 against $259,000. Floating equipment, operating, $116,000, against $104,000. Stationery and printing $248,000 against $208,000.

Q. What are the total increases shown on that sheet, have you them there? A. Roughly $5,200,000 in transportation expenses only, conducting transportation—

Q. And that includes all the labor, does it not? A. That includes all the labor in that department; in the maintenance of equipment we spent $15,560,000 against $13,903,000, an increase of $1,600,000.

Q. Then the main items there are $5,200,000 in the transportation expense, wages, and so forth and maintenance, $1,600,000, making a total of $6,800,000. A. We spent on maintenance of way $16,707,000 as against $12,284,000; there is $5,000,000 there. A considerable portion of that of course is labor. Roughly the $12,000.000 increase in expenses was divided, $5,000,000 for conducting transportation, $5,000,000 maintenance of way, and $2,000,000 maintenance of equipment.

Q. $2,000,000 maintenance of equipment, $5,000,000 is maintenance of way— A. And $5,000,000 transportation expenses.

Q. Did that maintenance of way include any double tracking? A. No, that is all charged to capital.

Q. But you have not separated just what proportion of that went to labor? A. No. We can ascertain that.

Q. You could ascertain that? A. Substantially we could.

Q. But if to increase your business it costs you the same in labor as the average cost of the Santa Fe, about 35 or 36 per cent., the labor account, it would cost you on a $10,000,000 basis of business about 3-1/2 to 4 million dollars in labor? A. Yes.

Q. That is putting it on the same basis as the prior year's business? A. Yes.

Q. And unless your labor account exceeds $4,000,000 then there has been no increase in the labor account of the Santa Fe? A. It seems to me that is a *non sequitur;* there has been no increase in the ratio, if that is what you mean.

Q. Yes, there has been no increase in ratio. A. No.

Q. The Santa Fe gets just as much out of a dollar of labor under one condition as under the other? A. Yes.

INCREASED COST MAINTENANCE.

Q. The monthly reports made to the Commission show that from July, 1908, to May, 1909, you spent for maintenance of equipment $800,000 a month, while from June, 1909, to May, 1910, you expended $1,200,000 for the same purpose, a month; there is a difference of $5,000,000 for maintenance of way compared with these two periods. A. Maintenance of way? You said maintenance equipment.

Q. Maintenance of way and structures.

Mr. NORTON. What two years?

Mr. LYON. From July, 1908, to May, 1909, $800,000 per month, and from June, 1909, to May, 1910, $1,200,000 a month was expended, an increase of $5,000,000 on way and structures.

A. Because we did not spend enough on the first year.

Q. That is the reason, is it not? A. Yes.

Q. You did not spend enough after the panic of 1907. A. No.

Q. Therefore it is all put into the expense account of 1910? A. Oh, no; oh, no.

Q. Well, did you or did you not put it in? A. It is barely possible that some things we postponed from a previous year that were put into this past year. We did not do any more however in either year, or did not do as much really as we ought to have done. I do not think any railroad in this western country did as much as it should have done.

Q. I understand that. I never heard of a railroad doing anything like what its president or its officials or the public thought it ought to do; but the fact is that in 1909 you were economizing in way and structures? A. Yes.

Q. And you spent $800,000 a month, and in the last month of the year 1909 you commenced to increase that way and structures account, and increased during that year $5,000,000? A. Yes, that is right.

Q. That covered a full year from June to June? A. Yes.

Q. And then in June, 1910, it dropped suddenly again to $678,000. A. Every month of June you will find very radical differences; you will find erratic statements for the month of June in almost every year in almost every large corporation, because the month of June is a time when the whole year's business is got together and synchronized, and there may be large jumps either way. It may add very largely to the expenses or reduce them; but as a matter of fact in the month of June last we did drop a great many things we had on hand, because we were not sure about the outcome. We preferred to go slow, and we did spend a great deal less money in the month of June, and we are spending less in the month of July.

Q. I do not think the extraordinary expense of $5,000,000 in 1909—that is the year from June, 1909, to June 1st, 1910, accounts for this $12,000,000 increase in the cost of earning the $10,000,000 revenue. A. It accounts for $5,000,000 of it, but it ought to have been $7,000,000 or $8,000,000 instead of five.

Q. And if these expenses for maintenance of way and structures had been made in 1908, of course it would follow as a matter of mathematics that you would have earned your $10,000,000 in 1910 at probably the normal rate at which the Atchison earns its income. A. If we had had the money to spend we should have spent it, even if we had spent as much in 1909, if we had had as much to spend in this last year, we would have spent it.

Q. But it would hardly be fair to say that you were not operating your road, so far as the increase is concerned, on a paying basis? A. Our expenses were no more than normal this last year, no more than they ought to be every year.

Q. No more than normal? A. No more than normal, no more than they ought to be every year.

Q. How were they in 1908? A. They were not up to what they ought to be. We lost ground. I do not mean to say that the road was not maintained in good condition, and was not in as good condition at the end of the year as it was at the beginning, but it was not as much better as it ought to have been; we did not do what we ought to have done and what the public demanded of us.

Q. That to some extent explains these figures, does it not? A. To some extent, yes.

Q. That you were economizing in way and structures in 1908? A. Yes.

Q. And when 1909 came you had the money and you charged it to the 1910 account? A. Yes.

Q. And this deficit is more apparent than real, as to the business of 1910? A. It is quite real to us; I do not know how it may appear.

Q. It is higher than for this year. Are there any large items, any other large items like the $700,000 item in this table you spoke of for the year 1910? A. I don't know of anything. No, I think not, not of that magnitude; not of the class we would charge to operating expenses.

Q. That is the largest item? A. That is the largest item I recall.

Q. When you extend your tracks at your stations—I am uninformed about it—does that go into the capital account or operating account? A. It goes into the capital account.

Q. All goes into the capital account, extension of station tracks? A. Yes.

Investigation of Prices Suggested.

Q. Just a few questions. I think the most vital question here before the Commission is how to determine this reasonable rate. Yesterday you gave your view on that subject, that the Commission should investigate these different commodities and the different points between which they are being shipped, investigate the manufacturing conditions, and so forth, and arrive at what is the value of the service. A. I have suggested at the same time that they investigate the prices charged at each end and the profits that are made.

Q. You are still of the opinion that the question of the cost of the movement of the freight and the value of the property are not material elements in fixing a schedule of rates? A. I do not know that I made myself clear about that yesterday, although I tried to.

Q. You have the opportunity now, Mr. Ripley. A. What I said was that the party who was making a rate in the first instance, deciding on what was a reasonable rate, that the question of the cost of the capitalization need not enter largely into his calculations and ought not to enter largely into his calculations. That statement I stand by. I think it is a question of the value of the commodity and the value of the service rendered. That is the first thing to consider. When it comes to a question of a legal body whose duty it is to limit rates, then the return which the carrier is getting will prop-

erly, perhaps, be taken into consideration, if there be indications that it is getting too much.

Q. You know that my question was directed to a schedule of rates and not to an individual rate? A. Yes, I understand.

Q. And your answer applies to the schedule? A. Yes.

Q. Such as the general advance out in this territory, to be considered as being a general advance in all rates? A. Yes.

Mr. LYNDE. No, Mr. Lyon, that is not at all our understanding.

Mr. LYON. What, that there is not a general advance in rates?

Mr. LYNDE. Not in all rates.

Mr. LYON. Oh, no; I understand that. I said a general advance in rates.

Mr. LYNDE. You said in all rates.

Mr. LYON. I did not mean literally in all rates. In a large number of the rates, that would probably be the proper term and of course the subject would have to be approached on a different basis if it was simply what would be the rate on grain shipped from St. Paul to Chicago, for instance.

In giving this opinion of yours that the rate should be determined, the schedule of rates should be determined upon the value of the service, I presume you have before you the figures of the Atchison Road to the general effect that it was really costing them less to do business now than at any time practically in the last five years?

Mr. RIPLEY. No, I had no such figures.

Mr. LYON. Your opinion, anyway—you would be of that opinion regardless of what the return was to the Santa Fe, as I understand your position was, it is not important unless it assisted you in arriving at your opinion? A. I think that our cost per 1,000 ton miles hauled has shown a steady increase for the last ten years. Our actual cost of transportation has shown a steady increase.

Mr. ATWOOD. Per ton per mile? A. Per ton per mile.

Mr. LYON. Of course what the public is interested in and of course the carriers are interested directly in the question you answer, but the public are concerned in the question of what becomes of a dollar you take from them in the performance of your public duty? A. Yes.

Q. And the record which we have shows that the Santa Fe has been a well operated railroad. I haven't the figures

for 1910, only for 1909, but they show that the operating expenses have decreased, the compensation to labor has decreased, the compensation to administration has decreased, the value of material has decreased, that the actual return to labor has increased 16 cents in the last five years. A. 16 cents?

Labor Again.

Q. Per employe's working day; and that the compensation to capital has increased in the same period 79 cents? A. 79 cents?

Q. Yes. In other words, by the investment of 16 cents in the sweat of the brow, as it is sometimes referred to, the vested interests get 79 cents. A. That is not true, that statement; I do not know how you arrived at it, but it is not correct.

Q. Do you want to see it? A. It is not only misleading but it is absolutely wrong. In the first place, of every dollar we earn at least 70 per cent.—at least 60 per cent.—goes back in one form or another to labor—out of every dollar we earn gross—we are dependent on labor to that extent.

Q. You mean out of every dollar that you earn— A. Of every dollar that we earn.

Q. You pay to your labor 60 cents? A. No, but it goes back to labor in one shape or another.

Q. That is another proposition. Confine yourself to what the Atchison Road does. A. You can not do that. Our expenditures are not confined to what we pay to our laborers.

Q. We have it all here as reported by you. A. I know you have it all there but you only use a piece of it.

Q. Well, I am sure it is not intentional. We have the compensation of labor here as reported by your office, we have the value of material as reported by your office? A. You have the compensation of one class of labor only.

Q. How? A. As reported to the Commission, it does not take in all labor.

Q. I don't know except what you report to the Commission? A. It does not take in contractor's labor. It takes in track labor and train labor and all that sort of thing.

Q. Don't your contracts go into your material account? A. No, they go into our roadway and track account.

Q. Let us analyze this a moment. You take a dollar from the public in freight rates over the counter; what do you do with it? A. Pay it out mostly.

Q. The report to the Commission shows that you paid in 1909, 33.49 cents of that to labor, to your labor? A. I don't know what the classification is on that.

Mr. NORTON. I would like to know where those figures came from?

Mr. LYON. They were obtained from the annual reports to the Interstate Commerce Commission.

Mr. NORTON. We never made any such reports as that to the Interstate Commerce Commission.

Mr. LYON. My statistician will have to be held responsible, then.

Mr. NORTON. All right. I would say right here, we have never made any report to the Commission dividing the expenses of the Atchison as between labor and material.

Mr. BAILEY. Let us stop right here because you are false in your assumption there.

Mr. LYON. Mr. Bailey, this matter ought to be straightened out.

Mr. BAILEY. I wish to assist you, but I know we make no such report as that.

Mr. LYON. I will ask you a question, if you please.

Mr. BAILEY. Yes if you please; I would like to straighten you out because you are all getting mixed up.

Mr. LYON. Of course, I don't want any error to get in here. The reports made to the Interstate Commerce Commission show the compensation of labor under that head at twenty-five million—

Mr. BAILEY. No, it does not.

Mr. LYON. Then of course that is a question between—

Mr. BAILEY. Our reports to the Interstate Commerce Commission are based exactly on the rules laid down by the Commission for making the reports, and they do not separate as between labor and material. There are certain accounts there that are all labor, there are certain accounts that are all material, and there are certain accounts that are a combination of the two. I do not understand how your statistician could have separated as between labor and material. I could not do it.

Mr. LYON. You mean by that that there might be some of the labor mixed up with the material, and some of the material mixed up with the labor?

Mr. BAILEY. Yes.

Mr. LYON. But the sum of the two you will admit to be properly reported to the Commission?

Mr. Bailey. Well, as Mr. Ripley has stated, the contract work we would not class that as labor or material. We would pay a man $500 for doing a job, and that would go as $500.

Mr. Lyon. Where would that go?

Mr. Bailey. Go to operating expenses.

Mr. Ripley. Go to roadway and track for maintenance, or wherever it was.

Mr. Bailey. We make no separation.

Mr. Lyon. That is the Interstate Commerce Commission report would go into the account of material?

Mr. Bailey. Well, we make no such separation there.

Mr. Atwood. It ultimately finds its way in the report, as a part of the division of your gross income, and Mr. Lyon wants to know under what heading would that expense find itself in the reports you file.

Mr. Bailey. The character of the expenditure would determine what account it goes into.

Mr. Lyon. I will explain that, Mr. Mueller (statistician for Commission) has explained it to me. This division is made from the reports which you furnish to the Commission.

Mr. Bailey. Oh, from the reports furnished to the Commission?

Mr. Lyon. Yes.

Mr. Bailey. Well, now then, you turn to your wage statement over there, that wage statement is taken from our payrolls, if that is what you are referring to. Is it?

Mr. Lyon. Yes.

Mr. Bailey. The wage scale is taken from our payrolls in accordance with the rules of the Commission. That payroll is partly collectible from other lines, there may be a part of it charged to additions and betterments.

It is not segregated as to how much of that payroll is operating expenses and how much is not. That is taken actually from our payrolls as we pay out the money whether it goes into your expenses, or some other line's expenses, or whether it is chargeable to additions and betterments.

Mr. Ripley. In other words, it is the entire payroll.

Mr. Bailey. Yes, it is merely an analysis of the payroll, not a classification of accounts.

Mr. Lyon. Well, then, Mr. Bailey, the three items of compensation of labor which we have analyzed here, compensation of general officers and value of material, added together produce the sum which you set down as your operating expense?

Mr. RIPLEY. No, not that because that covers all payrolls, construction account—

Mr. BAILEY. No, not construction.

Mr. RIPLEY. I mean additions and betterments and everything else. That is the sum total of our payroll.

Mr. LYON. Then your payrolls are not as large as they appear here by the statement, is that it? A. Our operating payrolls?

Q. You say your operating payroll is too high if your contention is correct? A. Yes.

Mr. NORTON. Then can we have a copy of these exhibits? Are you furnishing copies of the exhibit you are working from?

Mr. LYON. I have not offered any exhibit yet.

Mr. NORTON. Well, I mean will you furnish copies of those?

Mr. LYON. We will later, yes; but these are just in a crude shape. I did not intend to present this as an exhibit at this time, but I wanted to know whether his opinion that the rate should be constructed on the basis of the value of the service was at all influenced by the fact that the figures showed that there had been no increase in the expense to the Santa Fe in the last few years?

EXPENSES HAVE INCREASED.

Mr. RIPLEY. There is no legitimate set of figures that will make any such showing. Of course, I cannot tell what you have got there.

Q. I understand. A. I cannot attempt to analyze that.

Q. If these figures are not correct they might not have influenced your opinion as to how to construct the rate. I will say these tables will be properly presented at the next hearing when we can get them in shape, but they are taken from the reports and analyzed by our statistician.

Q. Your reports show the taxes from year to year on the Santa Fe? A. Yes.

Q. Something was said yesterday about the item of taxes; has there been an increase? A. A very large increase.

Q. The reports show that there has been a decrease in taxes. I mean by that that the part set aside for taxes out of each dollar is less now than it was five years ago, or substantially the same. It was 3.24 in 1905, and 3.41 in 1909? A. I have not figured that, that may be true.

Q. It would not be considered an unreasonable proposition as the revenues were collected from the people that the taxes

should at least keep on a par with the collections? A. I don't quite see the connection between the amount of tax on real property belonging to the corporation and the amount of earnings. If anybody was paying an income tax, if we were paying an income tax, that would, perhaps, be a fair proposition, but we are supposed to be taxed on property.

Q. I did not see the connection of it when your attorney asked you, except as a bare bald statement that in the last fifteen or twenty years, your taxes had increased, as I suppose they had to every man living in the United States? A. I think there are very few of them where it has doubled as it has with us. But that is merely an item of one of the things that we have to pay more for, for whatever reason.

Q. Of course, in 1905, you were only operating about 5,000 miles of road and in 1909, you were operating 7,500 or so? A. Ten thousand.

THE CAR LOAD ONCE MORE.

Q. Just one question in regard to this carload business again. It is true that the Santa Fe and other roads, when they have a small carload minimum often load two or three carloads in one car? Isn't that the practice? A. I don't think it is. It possibly may happen occasionally, but I doubt it.

Q. You mean to say then that if you took on flour at Chicago destined for the West, San Francisco, or some western point in an 80,000-capacity car, and the flour minimum is 24,000, I think, that you would take three cars to send that out in, when you could use one? A. Oh, no.

Q. It is a fact that you do load it to capacity, don't you? A. Why, we do if we have it, but we don't have it very often. In many cases we don't have it because the minimum is so low.

Q. Yes? A. That is why we send out a car with a half a load.

Q. In many other cases you do do it? A. Of course, if they bring us two cars we put it into one, but that is not the way it works out.

Q. You don't know it to be the practice to take the carloads in Chicago that come in from St. Paul and consolidate them and send them east? A. Oh, I don't doubt but that is the case with the lines east of here.

Q. You don't doubt that at all? A. I don't doubt that in the least.

Q. No, neither does anyone else who knows anything about transportation. A. That is what they ought to do if they operate economically.

Q. And the Santa Fe is operated economically? A. I don't know. It would sound better for somebody else to say that.

Q. That is all.

Examiner Brown. Any cross-examination, gentlemen?

Mr. Lyon. Just one question in regard to this dollar, one more question. I did not follow it out because I was afraid there might be some error in regard to these figures and I did not want to mislead anyone in regard to them, but it is a fact that out of every dollar you collect from the public, 59.11 is your operating expenses, that is what your report shows? A. That is as to a portion of the line for one year.

Q. For 1908, 63.55; 1907, 61.54, and 61.91— A. 1908, it was 68 plus.

Q. 68 plus. We haven't the figures. A. That is my recollection of it. We earned one hundred and five millions and we have thirty-two millions left, that is about sixty-nine.

Q. That is for the system and not for the railway? A. Yes.

Q. And five millions of that we have accounted for in this one item of increased way and structure account? A. Yes.

Q. And that would reduce your 68 to 63 if that had been charged off, on an average? A. No. That is on the assumption that we do not keep the property up. If we keep the property up, we spend that five million dollars every year, that or more.

Decrease Gross Earnings.

Q. Then, of course, you might not be earning 68. It might be 78 on that principle. A. This next year our earnings may go to 95, but we will have to keep the property up just the same. The way we started off now, I think the chances are they will.

Q. What do you mean by that? A. I mean we are likely to see a decrease in our gross earnings in the next twelve months.

Q. What do you attribute that to? A. I attribute it to general conditions of business.

Q. Are the general conditions of business bad? A. I would not say that were bad; they are not as good as they were a year ago.

Q. What is the trouble, have you any idea? A. Well, I am not a professor of political economy and I do not care to venture an opinion.

Q. I have read so many articles by Mr. Ripley, I had an idea you were? A. I do not care to venture an opinion as to what the trouble is, but I think the consensus among the merchants and others in this room is that the conditions are not as good as they were a year ago, and I do not expect to see as large earnings as we saw last year.

Q. Then you would be surprised to learn that for July, 1910, and for the first two weeks of August 1910, the traffic reports show a large increase in business? A. What kind of traffic reports?

Q. The financial papers and the reports to the Interstate Commerce Commission so far as they are there? A. Ours does not show it. I gather from my railroad friends and neighbors that theirs don't show it. We start off with a decease.

Q. Sir? A. We start off with a decrease for the year.

Q. How much of a decrease? A. Quite a considerable decrease.

Q. Do you mean for the month or for the year?

Examiner Brown. He said he started off with it.

Mr. Ripley. The year begins the first of July.

Mr. Lyon. Decrease compared with what? A. The month, compared with the same month the year before.

Q. The same month, say July, 1910, compared with July, 1909? A. In July we did not start off with a decrease, we earned a little more in gross. But August, so far, is off three-quarters of a million dollars.

Q. That is out of about how much? A. Out of eight million dollars.

Q. Three-quarters out of eight million? A. Yes.

Q. Then in your view of the matter, we are approaching a serious condition in the country? A. I haven't said anything about it; I said I anticipated a decrease in our gross earnings. That may or may not be considered a serious matter. It is a little serious to us.

Q. So far as the last figures which we have for July, are concerned, it does not show that the pessimistic view which you take of it and the country at large, is correct? A. I think that is probably correct, that the July figures won't show that. I think the July figures are about the same as last year.

Q. And last year was considerably over what it was the year before? A. Yes.

Q. Very largely? A. Yes. One swallow doesn't make a summer; one month doesn't make a year.

Mr. Atwood. Do I understand, Mr. Ripley, you to say that your recollection of the report of July, 1910, is approximately the same as the year of July 1909? A. Yes.

Q. How about the month of August, what do you know about that? Have you any knowledge of that? A. This present month of August?

Q. Yes. A. I have already said it showed quite a decrease.

Q. Were those reports made to you by the week? A. Yes, sir.

Q. Can you approximate the decrease during the first three weeks of the month of August? A. I have already stated—

Examiner Brown. He did so, he said three-quarters of a million.

Mr. Atwood. I beg pardon, I did not hear that.

Mr. Atwood. What do you understand as a financier, if you wlil permit me to apply that term to you— A. It is a misapplication of the term in my case.

Margin of Safety.

Q. I fear your modesty overcomes the proof. How do you interpret the term as applied in financial circles, of the margin of safety? A. I don't know as there is any adequate definition for that.

Q. Well, just give us yours, it will be adequate enough for this purpose? A. I think if I were an investor and were going to invest in the bonds of any railroad company, I should look up its record and see to what extent its earnings had been sufficient—had sufficed to pay dividends on its stock, and what the margin was, and if it barely earned a dividend on its stock, I should doubt the wisdom of investing in its bonds.

Q. Isn't it in ordinary parlance that term applied to that difference existing between the total income of a corporation, railroad or otherwise, and the fixed charges? A. I don't think that is the general interpretation. As I say, I disclaim being a financier.

Q. Do you know what the margin of safety quoted by recognized financial authorities of your company is? A. No. I don't know. I don't think we have any recognized financial authority.

Q. You have heard of the book called Moody's Manual? A. We have no such title in our books.

Q. I recognize that, but there are certainly books that

are recognized by you. Do you know Moody's Manual? A. Know what?

Q. Know Moody's Manual? A. Oh, yes.

Q. That is recognized as a book, the statement of facts, or purported facts contained therein is recognized among financial people everywhere? A. I think so, yes.

Q. And the opinions expressed there are recognized as financially conservative? A. I don't know as to that.

Q. You have no opinion as to that? A. No.

Q. And as to the estimates that it has put upon the securities that are offered for sale upon the bond or stock market, do you know whether they are recognized to be of value? A. I imagine there are many other books of the same kind.

Q. But I am speaking of only the one book. You spoke yesterday, as I understood you, in rather commendatory terms of the management of the Pennsylvania and the methods it employed. Did I understand you correctly? A. Yes.

Q. Now, then, if it is a fact, would you infer or do you know whether or not the margin of safety recognized in financial circles as applied to the securities of that road is higher or lower than yours? A. I should say it was higher; certainly its credit is better.

Q. If it should be a fact that these authorities recognized it as lower, would that be a fact that would at all influence in your mind, your thinking well of your own management? A. Well, no, I don't think it would.

Q. Your modesty still would control? A. I think it would.

Q. Mr. Ripley, yesterday, as I recall it, you stated, and I think corectly, that the bonds, stock and preferred stock issued in 1896 was something like three hundred and sixty odd thousand dollars. Am I right? A. Millions.

Q. Millions, I mean? A. Yes, I think so.

PRICE OF OLD ROAD.

Q. Do you remember what the road that represented that property sold to the reorganization committee for, King, Beman, and Marawetz? A. No, I don't remember what it sold for, and it doesn't figure, it doesn't cut any figure; it is not material really what it was sold for.

Q. The fact that it was sold for sixty-five million would not affect you? A. Not at all. It was sold to the owners, sold to the bondholders. That does not affect it.

Q. If the statement is made that it was sold for $60,000,000 would you be disposed to quarrel with it from any recollection you have? A. No, those reorganizations are always handled

in that way, it doesn't make any difference what price is paid for it.

Q. But the fact remains that that was the price? A. It was paid for in bonds, and it was immaterial what was set on it or what upset price was put on the property.

Q. I would like to know if your understanding of the work of your auditor or accountant's office or statistician's department, whatever you may call it, is such that they do not report to the Interstate Commerce Commission reports from which a competent statistician might not be able to determine the labor cost per mile? A. They report exactly what the Interstate Commerce Commission demands of them.

Q. That is not quite an answer to my question. If you have no knowledge of it, that is all I want you to say. I simply asked you if your understanding is that they do furnish figures from which a competent statistician can determine the labor cost per ton per mile? A. I think I will let the auditing department determine that. What I know is that they furnish what the rules of the Interstate Commerce Commission require.

Examiner Brown. Is there anything else? Is that all of Mr. Ripley?

Mr. Norton. I have some re-direct.

Mr. Thorne. If he is going to examine him on re-direct I would like an opportunity to cross-examine at this time.

Examiner Brown. Very well. Go ahead.

Mr. Thorne. I think Mr. Ripley's testimony is of great importance here because he has covered the thing fully and I want to go over one or two questions.

Q. You made some statement about the increased cost per ton per mile? A. Yes.

Q. Is that operating cost, or did you refer to investment as well as operating cost? A. Operating cost only.

Q. Operating cost? A. Yes.

Q. In order to reach that conclusion you had the figures— A. We will present the figures.

Q. Very well, then I will not consume any more time on that.

Cost of Road.

Now, Mr. Ripley, in regard to the property investment, you said that the investment per mile at the present time is much greater than it was a number of years ago? A. Considerably greater, yes.

Q. Could you state approximately about how much greater per mile? What is the present estimate? A. About 57,000 per mile.

Q. What would you estimate it to be when you purchased the road in 1897? A. I don't think there was any estimate at that time, but we can tell you what the capitalization was at that time per mile.

Q. I don't care to know about the capitalization, but how much greater is the investment today than it was then per mile, ten or twenty per cent. greater, or twenty-five per cent. greater? A. No, it is not twenty-five per cent. greater.

I would not like to answer that question without refreshing my memory, but the invesement per mile, while it is very much larger on our main lines, has been reduced considerably by the construction of a very large amount of cheap mileage, that is, mileage which—I would not call it yet complete, but it has reduced the total quite considerably. There has been a large amount of branch mileage built that has tended to reduce the cost per mile, although the original mileage has been rebuilt and is worth a great deal more than it was at that time.

Q. Is your investment today per mile greater or less than it was in 1907? A. Greater.

Q. How much is it greater, 10 per cent. greater? A. I would not say—

Q. Well, is it at least 10 per cent. greater? A. I do not know.

Q. What would be your best judgment? A. I have not any judgment on the subject. I do not remember what the cost per mile as it stood on our books was when we took it 15 years ago, so I do not know. It is possible—

Q. You have not any way of finding out the cost per mile except the capitalization, have you? A. Yes, we have the cost on our books.

Mr. Norton. That is shown by Exhibit No. 1 which was introduced yesterday.

Mr. Thorne. No, not the investment per mile. I wish you would give us— A. It can be very easily found out.

Q. I wish you would give us the cost per mile in 1907. A. We can do that, but I do not carry that in my head.

Mr. Lyon. No, I understand that is the cost of the freight business that you are talking about?

Mr. Ripley. No, he is talking about the cost per mile of road.

Mr. Lyon. Well, that is what I understood.

Mr. THORNE. If the present rates that exist to-day were maintained, just who would it be a hardship on? You would still have enough to pay your labor during the coming year, would you not? A. I think we would, yes.

Q. You would still have enough to pay your ordinary operating expenses as you have conducted them in the past? A. I think so.

FUTURE DIVIDENDS UNCERTAIN.

Q. You would have enough to pay your dividends? A. I do not know whether we would or not.

Q. You have not failed in recent years to pay your dividends, have you? A. No, we have not.

Q. The probabilities are you will be able to pay your dividends as usual? A. That is an assumption that you can make. I do not—

Q. When was the last time you failed to pay your dividends? A. Well, we failed to pay any dividends on the common stock in three or four years after the reorganization. Since then we have been paying.

Q. For the last ten years you have never failed to pay dividends? A. I think that is true.

Q. You have never failed to pay the interest on the bonds? A. No.

Q. So they will probably be protected during the coming years; you have nothing to prove they will not be. A. I have not anything to prove they will not be or that we shall default on our interest, but this last year, which was the largest gross earnings we ever had, we kept up the property and earned 8.8 per cent. on our capital stock; but I can see expenses ahead of me for this coming year enough to warrant me in the belief that we will not any more than earn our dividends; we might possibly earn our six per cent. dividends; in other words, I think it is not improbable that our earnings may shrink to a point where we will not earn any more than our dividends.

Q. By the expenditures you refer to at the last, that you may not be able to meet, you refer to these facilities that you spoke of yesterday largely, do you not, that do not add revenue to the road? A. Yes, and I refer to a variety of expenses—

Q. Not to the ordinary expenses, but to these improvements, is what you refer to? A. Yes.

Q. So reduced to its ultimate analysis, you think you are entitled to increased rates in order to build these facilities.

is that correct? A. In order to keep up with the times and do what the public expects of us.

What Should Be Earned.

Q. And make improvements above what you had last year? A. Certainly. Any railroad that fails to do that is bound for the slide.

Q. You think that ought to be paid out of operating expenses? A. Most certainly I do.

Q. By operating expenses there I mean to include the upkeep of the property, including all that is necessary to turn your road over at the end of the year in just as good condition as you found it at the beginning of the year. A. Yes.

Q. And yet the improvements above that, is what you want to build out of these increased earnings? A. Exactly. We can keep up the road in the same condition it is in now and probably do all these things and perhaps we would pay our dividends; but that is not what people want, that is not going to satisfy anybody, that is going to result in additional legislation and additional persecution, because we do not do it.

Q. Then you want to appeal to the vanity of the people— A. That is a mere item.

Q. And the comfort of them. A. That is a mere item. I mentioned that because every little town wants a station; if we build a station in one town, and the people in the other town do not sleep nights until they get one equally good, even though the one they have may be perfectly satisfactory for our purposes; but that is only one little item; there are a million things the communities expect of us all the time.

Re-direct Examination.

Mr. Norton. In view of the cross-examination of yesterday I want to introduce practically, I think completely, information called for by Mr. Atwood this morning. Exhibit 1 put in yesterday, in addition to showing the gross property investment, showed the interest thereon. The paper which I offer as Exhibit 2 shows the interest and the earnings also on the capitalization.

The paper I offer as Exhibit No. 3 shows the interest on the stock after payment of bond interest.

Mr. Atwood. That is for a series of years?

Mr. NORTON. From 1896 to 1910, during the whole life of the company.

The paper which I now offer as Santa Fe Exhibit No. 4, shows the disposition of surplus from 1896 down to the present date, being the whole history of the life of the company.

Mr. NORTON. So that there may be no question about the import of these and the meaning, I will just ask Mr. Ripley to state the gist and import of Exhibit No. 2, what it is designed to show? A. It is a statement of the Atchison, Topeka & Santa Fe System showing the outstanding securities in the hands of the public; the income applicable to bond interest and stock dividends; and bond interest and dividends paid, with the ratio of such income and bond issue and dividends paid to the outstanding securities, after being averaged for the period covered. It covers the period from January, 1896, to June 30th, 1910.

WHAT HAS BEEN EARNED.

Q. What does that mean? A. That means that under the average for 14 years and six months of the operation of this company since it has been in existence the net earnings were equal to 4.75 per cent. on the entire capitalization, stock and bonds.

Q. What is the meaning of the ratio of bond interest and dividends paid to total outstanding securities, 3.75 per cent.? A. That is the amount paid, not the amount earned; that is the amount which has been paid out, 3.75 per cent.; the amount earned was 4.75 and the amount paid was 3.75.

Q. This Exhibit No. 2 refers to the entire system? A. Yes.

Q. Do you want to make any comments on the column headed "per cent. of securities outstanding"? That should be per cent. *on* securities outstanding? A. Yes.

Q. Per cent. *on* securities outstanding, it should be.

Mr. JAMES. In both columns?

Mr. NORTON. Yes, percentage columns, one after B and one after C. Do you care to make any comments on that? A. I I think that has all been brought out. That shows that the maximum earnings on the securities outstanding has been 6.53 per cent. That was obtained only in one year. That was obtained in 1907, and in 1909 it was 6.13 per cent., but never has been as much as that in any other of the 15 years.

Q. And in the same year in the other column it

reads 4.46. What does that indicate? A. That is the amount that was actually paid, the rest of the money having gone into the property. The amount that has been actually paid on the capitalization reached its maximum in 1906, and was 4.56.

Q. That is all for Exhibit 2. Now, I pass you Exhibit No. 3.

Examiner HILLYER. It reached its maximum in another year, according to this table; 4.65 in 1901.

Mr. RIPLEY. That is wrong. In 1901 it was 5.14, and 4.65 was paid; and 5.14 was earned.

Mr. NORTON. Not all the earnings were paid? A. There are two columns, one showing what was earned and one what was paid.

Q. They are not intended to agree. Do you care to comment on Exhibit No. 3? That covers the entire system, does it? A. Statement showing capital stock outstanding, income balance applicable to dividends on such capital stock, dividends paid, and ratios of income balance applicable to dividends, and dividends paid to capital stock outstanding, averaged for the period covered.

Q. What is the net result of this showing? A. The net result shows that the average for the 14 years and six months, there was a balance applicable to dividends of 5.54 per cent.

Q. And that you paid? A. And that there was paid 3.49 per cent.

Q. What is the red ink entry after 1897? A. That year we failed to earn our interest by $78,000.

WHERE MONEY WENT.

Q. Now, I show you Exhibit 4. Will you make any explanation of that that you think will help to an understanding of it; that is the disposition of the surplus? A. This shows what we did with our money. In the 14 years and six months there has been paid in bond interest $134,000,000; paid in dividends $112,000,000; appropriated for fuel reserve $2,447,000; paid as discount on bonds $8,738,000; appropriated for additions and betterments $30,347,000, leaving a remainder for the 14 years of $24,231,000, which stands on our books as a surplus, but which is not a cash surplus, being all invested in the property.

Q. You speak of a sum written off. Is that all shown in the statement you have just made?

Mr. Bailey. There is an absolute copy of what became of the surplus, unless there is something—

Mr. Ripley. This statement does not show what has been written off except—

Mr. Norton. By deducting $9,000,000 from the $30,000,000—

A. Oh, yes, practically $21,000,000 has been written off there, and in addition there has been a considerable amount of fuel earning properties written off and about $3,000,000 of land sales written off.

Examiner Hillyer. In this statement, Exhibit 4, for 1910, you have appropriated for fuel reserve $703,000.

Mr. Ripley. Yes.

Fuel Appropriaton.

Examiner Hillyer. Which is considerably more than twice as much in any other year. For what was that money expended.

Mr. Ripley. Well, it is not yet expended. It is simply reserved. We are the owners of considerable fuel properties, and of course it is a wasting property; it is eating up capital all the time. We have to set aside a sinking fund concerning which there is no fixed rule. We set aside from year to year what we think is a safe thing to set aside in order to renew those properties. The amount we set aside depends a good deal on what we have taken out during the year, and that varies.

Examiner Brown. Of course that is just one item and a small matter, but how does it happen that in the year 1910 it ran up to $703,000, was the question asked. Do you remember why?

Mr. Ripley. I do not remember the details exactly, but it is dealt with very largely by what we consider the condition of the property. For instance, our oil properties in California, if they show—if any particular territory shows signs of failing and apparently we are pretty near the end of it, we have to set aside a larger surplus to provide for its replacement somewhere else. Those things are to some extent a matter of estimate, and must be, because we cannot tell when we get to the end of our string on those things.

Mr. Atwood. Right in that connection let me ask: If, as I understand, 1910 was a bad year, what reason do you now recall for putting to the fuel reserve fund $703,000 as against $158,000 in the good year of 1908?

Mr. Ripley. I have just been explaining that.

Mr. Atwood. I understood you to speak in generalities; you said it might under certain conditions. Do I understand that there is—what is the fact with regard to that year, what fuel failure or contemplated fuel or prospective fuel failure was there which occasioned you to take out of this lean year more than three times as much as you did out of the good year to put into that reserve fund?

Mr. Ripley. I recall one very notable instance; I do not exactly know what the moving cause was as to this particular thing, but we have one oil field in California which costs us about one and a quarter million dollars which I think is on its last legs, and we have been taking oil out of it until I think we have probably got only a year or two left, and that is one of the things that we have to provide for.

Mr. Atwood. Of course, the smaller the net return shown—you understand to be a situation disclosed that would tend to make an argument before the Commission as to why these rates should be advanced.

Mr. Ripley. Let me understand that.

Mr. Atwood. If your net returns are small—

Mr. Ripley. Oh, yes.

Mr. Atwood. That is an argument why, as I understand, you are presenting to the Interstate Commerce Commission as to why there should be this advance?

Mr. Ripley. Yes, I see.

Mr. Atwood. Let me ask you if this triple disposition of funds, more than three times that of the good year 1905 to this fuel reserve was done because there was in the mind of the management the idea that that would help to make this lean showing, that is be employed as an argument before the Commission now?

Mr. Ripley. I do not think it had any influence. It certainly did not on me. But let me ask you why you took 1905?

Mr. Atwood. I took 1909.

Mr. Ripley. You took 1909 and said 1905.

Mr. Atwood. If I did it was a mis-speaking. I used the figures of 1909.

Mr. Ripley. Suppose you now take over a series of years and see what the average is.

Mr. Atwood. All right. You cannot find one on your own showing which this does not more than double it; so that out of the good year 1907, which you said was the banner year, and 1909, the next banner year, you had less than one-third de-

voted to this fuel fund which you took out of the lean year 1910.

FUEL PROPERTY NOT IN RAIL OPERATION.

Mr. RIPLEY. Those fuel lands are not part of the operation of the road. The fuel properties are owned—true, they are owned by the railroad—but the market price of the oil is charged to the fuel supply companies, and the fuel supply companies keep their own books and make their own profits and the portion of the profits which we set aside to fuel reserve fund does not affect our operating matters at all.

Mr. ATWOOD. These funds you call the fuel reserve fund come out of your gross revenue?

Mr. RIPLEY. Yes, but a larger amount comes back from the fuel properties.

Mr. ATWOOD. Well, the fact remains that is a depletion in itself, taken by itself—

Mr. RIPLEY. Not properly, no.

Mr. ATWOOD. Wait a moment. Then if you have a gross revenue of $100,000,000 and you set out of that gross revenue $700,000, not yet expended, but sometime in the future to be expended—

Mr. RIPLEY. We know it has to be spent.

Mr. ATWOOD. You said it has not been spent?

Mr. RIPLEY. No, but we know it has got to be spent.

Mr. ATWOOD. Well, the fact remains you made provision in 1909 for this same anticipatory trouble by setting aside $158,000, according to your figures, and the year before $98,000 and the year before $191,000.

Mr. RIPLEY. That is not right.

Mr. ATWOOD. I am not quarreling with your accountant. Go and fix it up with Bailey and come back and tell us what is right.

Mr. RIPLEY. There is nothing of that sort there.

Mr. ATWOOD. Let us see. Appropriation for fuel reserve, 1908, $81,000; 1909, $158,000; 1910, $703,000 and odd.

Mr. RIPLEY. That is not right.

Mr. ATWOOD. Settle it with Mr. Bailey and then we will go on. Is that right, Mr. Bailey?

Mr. RIPLEY. I would like to have Mr. Bailey tell you.

Mr. ATWOOD. No, let him go on the stand; if you do not know, all right. But I am assuming this exhibit which your attorney introduced and which is now before you is correct,

and if it is correct, I would ask you again, and would be obliged for a categorical answer if I may have it, as to whether or not the desire to make a lean showing for the purposes of arguing before the Commission at this hearing, caused you to put into this reserve fund which you have not yet spent—you certainly do not need it enough so you have spent it—but put it in there as reserve, $703,000 out of this lean year, when in the good year of 1907 you only put $191,000 and in the next good year of 1909 you only put in $155,000; will you be good enough to say whether or not that did in anywise enter into the occasioning of the disposition of those funds?

Mr. Ripley. No.

Mr. Atwood. All right. With relation to the possible differentiation or segregation of the capitalization of your subsidiary and main lines—

Mr. Norton. I thought you just wanted to ask that one question.

Mr. Atwood. No, I beg pardon, I thought you were through. I had no intention to be rude.

Mr. Lyon. I have one or two questions with relation to this exhibit which I can defer if you like.

Mr. Norton. I just introduced these exhibits and intended to finish my re-direct examination, and then you can take up the exhibits.

In the cross-examination of you yesterday by Mr. Atwood, the fact was brought out that the gross operating revenue in 1906 was $47,000,000, while in 1907 it leaped to the enormous figure of $76,000,000. I pass that by with the mere comment that it developed that the first figures contained a shortage of mileage, and that it is a good illustration of much information that goes to the public on these subjects.

Labor and Capital in Making Rates.

In the course of the cross-examination Mr. Atwood, as I understood his line of questioning, endeavored to make you say that the additional money paid to employes in wages was of little or no consequence in this case. Is that what you intended to have go on the record? A. No, I certainly did not.

Q. So was my understanding of your original testimony correct in this, that when freight men come to the making of a freight rate or freight schedule they take no account of the capitalization of the road, or the value of the road, or the money that anybody is earning as an employe—that they may

be absolutely ignorant of those facts and still make reasonable and proper rates? A. That is what I said.

Mr. Lyon. What Mr. Ripley really said is in the record.

Mr. Atwood. That is so.

Mr. Norton. I think not. I think he was made to say what he didn't intend to say by the interjection of words into his mouth that he did not intend to offer.

Mr. Atwood. You do the intelligence of your witness a great deal of injustice.

Mr. Norton. We have it in the record now as I think he intended to say it in the first place.

Discount of Bonds.

Now, coming to the discounts of the bonds on which Mr. Atwood laid so much stress yesterday in his questions whether you might not have sold more bonds at par than you did, I will put this question: Whether you might not have sold them at par if you had offered more interest? A. Undoubtedly.

Q. Or sold them at a higher rate or more nearly par? A. Probably we could have sold a 5 per cent., or if not a 5 per cent., a 6 per cent. bond without any discount, but that would have saddled one or two per cent. additional interest on us for the life of the bond, say 40 or 50 years, so that in the long run we would have taxed this generation and posterity—assuming that this generation and posterity are going to let us pay the interest—we would have taxed them 40 or 50 per cent. instead of 2½ or 3 per cent.

Q. Referring once more to this $8,000,000 of discounts, something more than eight millions, which was referred to as value stated in the property which never went into it, I should like to know if you have any information as to whether Mr. Atwood, who thought that was an erroneous imposition upon the property and upon the public, or his Kansas City cohorts, came to your assistance with money for the purchase of those bonds when they were put upon the market? A. I do not think there was any noticeable struggle on the part of anybody west of the Allegheny Mountains to buy those bonds.

Mr. Atwood. No, they did not notify me personally about the matter.

Mr. Norton. Did they notify you personally about the surplus which concerns you so much now?

Mr. Atwood. No, because they never would have given me

any of it anyhow, so what is the use of fussing? That goes to the legal department.

Mr. NORTON. Not all, as shown by the tables which have gone in here. Did Mr. Atwood at that time, or any of his Kansas City legionaries, give you any advice about the proper way to carry this load under which you were struggling uphill at that time? A. I cannot differentiate these gentlemen from a lot of others; I have had a large amount of advice from various sources. I do not recall now who they were.

Q. Well, you have had more advice since you have had a surplus than you had when you had a deficit? A. Yes, we did not have any friends then.

Q. Well, Mr. Montgomery (of the shippers committee), who has been marching on the outer ramparts here, calling the people to their self-defense, did he render any assistance or offer any money when you were saddling this $8,000,000 upon the public? A. I do not recollect that he did. In fact, I think at that time Montgomery was an employe and naturally had no money.

Mr. MONTGOMERY. And offered some assistance, too.

Mr. ATWOOD. To carry the load.

Mr. NORTON. Did you get any light from him, if he did not have any money to offer? A. I do not think he volunteered any advice on the subject.

Q. Most of your advice, as I understand it, then, has come from those people since you have had a surplus? A. Yes.

Q. That is what worries them. A. Yes.

Q. But you were left alone with your deficit? A. Yes, sir.

REASONABLE RATE AGAIN.

Q. Now, going to the question of a reasonable rate and how it is ascertained, as I understand your testimony it is this, and I want to get it clear, that in the discussion of rates in a case like this, where it appears from the showing that we have made that the company is earning inadequately, and there is no question of confiscation involved, that what the value of the property is or what its bond representation is, or stock representation is, is practically alien to the case. A. I think so.

Q. That would be so whether you were fixing the rates through your traffic men or whether the Interstate Commerce Commission were fixing them? A. Except that I think where

it is proposed to limit income by a law, it is a perfectly proper inquiry to ascertain what that income is.

Q. By that I understand that if it were to appear that your company, like some of these shippers who are represented here, were making 25 per cent., for example, on an inflated capitalization, then it would be proper for the Commission to consider the capitalization of the railway company and its real value? A. Very likely.

Q. But that does not arise in the case at bar.

Mr. LYON. Why doesn't it?

Mr. NORTON. Because we have no such showing here, and because we make the showing not only by the exhibits here that we are not earning what we should, but also by the oral testimony of the witness that this business has moved freely and as we shall endeavor to show later, that these people have prospered greatly, which is the highest test of a reasonable rate.

Mr. LYON. Your explanation is entirely satisfactory. I did not know the why of it.

Mr. NORTON. There is another case, as I understand it, in which the valuation of your property, or the bonded indebtedness or the stock issue may be taken into account, and that would be such a case as was read to you yesterday with more or less oratorical effect, the Nebraska case, where the Commission fixes a state schedule of rates, for example, and the charge is that they are confiscatory; in a case of that kind the value of the property would be properly considered? A. Absolutely necessary, if the defense is on the ground of confiscation.

Q. The question was put to you rather persistently yesterday as to whether all other things being equal, whatever is meant by that, if a rate is reduced, a great tonnage will not follow, and, therefore, greater revenue result. I will ask you whether under existing rates, all of the citrus fruit, for example, does not move out of California? A. Everything.

Q. If the citrus fruit rate were to be cut in two, would you move another orange or lemon? A. No.

Q. So that the proposition is erroneous as insisted upon and stated, as a matter of practice?

Mr. LYON. Your opinion is, Mr. Ripley, that if the citrus fruit rate were cut in two from California east, that no more citrus fruit would be shipped east?

Mr. RIPLEY. Absolutely.

Mr. Norton. You cannot ship more than they have?

Mr. Atwood. Other people could go into business and probably would do so if the inducement was offered in that way.

Mr. Norton. That is another proposition. They might or might not. Rates have been lowered and people have not gone into business.

Mr. Lyon. I just wanted to get the witness to indicate his opinion.

Mr. Ripley. My answer was "no," it would not increase the business a particle.

Mr. Lyon. There would be no more business.

Enlarged Equipment.

Mr. Norton. Mr. Ripley, in answer to a question by Mr. Lyon, representing the Commission, this morning, you stated, as nearly as I can recall it, that there was no mistake in enlarging equipment. I understood your testimony yesterday directly to be that the enlarging of the equipment had not measured out to expectations fully. A. I said that, but I did not mean to say that it was a mistake. I simply said it did not do altogether what we expected of it. I spoke of that and of the increase in our engines and various other things, as having some drawbacks. I did not mean to say it was not the thing to do or was not profitable.

Mr. Lyon. There is no danger of going back to small equipment, that is not the policy of the railroads?

Mr. Ripley. Oh, no.

Mr. Norton. No, I wanted to make it clear that he said the increase did not measure up fully; it has been of value, but it has not been of the full value anticipated.

Mr. Lyon. His anticipations were too great.

Mr. Norton. Well, it needs high aims in this country as it has been developed. And that reminds me, Mr. Ripley, has the United States from the Alleghenies west, or even from further east than that, been developed industrially by the application of the rate-making principle that you have stated here in your testimony? A. I think it is due to that almost wholly.

Q. The rapidity of development, the thoroughness of development, has been due to that, in your opinion? A. I think so.

Mr. Lyon. I thought it was due to the tariff.

Mr. NORTON. That depends on whether you are a Democrat or a Republican, or an Insurgent.

Mr. NORTON. Recurring once more for a moment to the question whether the change of rates will move a product, my attention has been called to the fact that the price of lumber from the yellow pine districts has fluctuated from $14 to $21 a thousand in the last three years, while the freight rate has remained stationary. Do you know anything about that? A. Yes, in general that statement is correct. There are a great many of those things that are fluctuating in value, although the freight rate does not fluctuate. I think perhaps I ought to explain one thing.

Q. Very well. A. The question that was asked about the reduction of rates awhile ago, and the question that was asked yesterday about the reduction of rates, about a possible increase in volume of traffic by a reduction in rate.

Mr. LYON. That has been answered fully.

Mr. RIPLEY. It has been answered fully, but I think the answer might be distorted, or misunderstood. For instance, your question as to the citrus fruit business.

Mr. LYON. Yes.

Mr. RIPLEY. I said that a decrease of 50 per cent. in the citrus fruit business would not increase the movement. I do not mean to say by that that if the rates from everywhere else were maintained at the present level, that a decrease in the citrus fruit rates from California might not slightly encourage the growing of more citrus fruit; possibly it would, but if it was followed by a corresponding decrease everywhere else, as presumably would be the case, it would not increase the business.

All the citrus fruit than can be marketed is raised now, except in the matter of lemons. All the oranges that can be raised are already raised—I mean all that can be sold are already raised, and it would not increase the business at all.

Mr. LYON. Do I understand you, then, to seriously say that the California orange business has reached its maximum?

Mr. RIPLEY. With the present population of the United States, I think it has. The orange is a luxury rather than a necessity, and it has to be pushed off even now.

Mr. LYON. Isn't it a rule in transportation that luxuries are more largely used on a low cost than necessities?

Mr. RIPLEY. Well, but—

Mr. LYON. Well, answer the question, isn't that true?

Mr. Ripley. Yes, I think that is true.

Mr. Lyon. I have heard some of the traffic men say that—that the way to move luxuries is to give them a low rate. A fellow is not going to consume more coal because he can get it cheaper, because if he gets warm once he stays warm; but if he gets oranges cheap he will eat more of them. I have taken testimony in California on the orange business.

Rates and Prices Consumers Pay.

Mr. Ripley. One cent an orange is about what it costs to bring one here now.

Mr. Norton. Six cents a dozen? A. Six cents a dozen, half a cent an orange.

Mr. Ripley. I do not think a reduction of a quarter of a cent an orange would make any difference in the consumption.

Mr. Lyon. You think that the general proposition as stated by traffic men is not true, then?

Mr. Ripley. I don't know what the general proposition as stated by traffic men is.

Mr. Lyon. I will state it to you: that when you reduce the cost of a luxury, you thereby increase the consumption, but when you decrease the cost of a necessity, you do not so largely increase the consumption.

Mr. Ripley. I think that is probably true as a general proposition, but the freight rate constitutes so infinitesimal a portion of the cost that that does not apply.

Examiner Hillyer. Mr. Ripley, in your qualification of the orange case just now, do you intend also to qualify your general statement made yesterday that the reduction of rates did not increase the movement of freight?

Mr. Ripley. Only to that extent; I am assuming that the reduction is followed by a corresponding reduction from other markets. Of course, if you could take in one particular place in the United States and reduce the rate there and did not reduce it elsewhere it would be followed by an increase of tonnage presumably. But if the parity is maintained it would make no difference.

Examiner Hillyer. All of your testimony on that point, then, presumes that the parity is maintained?

Mr. Ripley. Surely.

Mr. Lyon. Is that all, Mr. Norton? I had a question I wanted to ask about this exhibit.

Mr. Norton. I think that is all.

Re-Cross Examination.

EARNINGS FOR 1910.

Mr. LYON. In reference to this exhibit that has been put in, this Exhibit No. 4, which brings to me the first news I have of the 1910 operations, it shows that you earned a million and a half less gross above the operating revenues—under the heading, Earnings of Property Available for Bond Interest, Dividends and Voluntary Appropriations—was in 1910 one and a half million dollars less than in 1909. A. I think it was about two million dollars, wasn't it?

Mr. NORTON. What exhibit is that?

Examiner HILLYER. Exhibit No. 4

Mr. LYON. It is $1,146,000, to be exact, about $1,000,000. A. Oh, yes.

Q. In other words, in 1910 you had $1,100,000 less on hand to dispose of to your dividends or what purpose you choose, than you had the year previous? A. That does not correctly state our operations. Our operations resulted in a loss of about $2,000,000, I think that is the figure there somewhere.

Q. Well, I am just examining you now as to this statement. A. Yes.

Q. This exhibit which you filed shows that for the year ending June 30, 1910, you had $1,100,000 less to distribute than you had in the year ending June 30, 1909? A. Yes. As a matter of fact, it was more than that, but let it go at that.

Q. Well, they are your figures, so I don't know, and this is the first information I have had as to the 1910 operations. You show that the interest on your bonded indebtedness increased $1,600,000? A. Yes, sir.

Q. That is $400,000 less to be added in fixed charges? A. Yes.

Q. Than the amount you had to distribute? A. The previous year, yes.

Q. It also shows in this unfortunate year, 1910, you distributed $5,000,000 more in dividends. A. Yes, that is because the bonds were converted into stock, taken off of one side and put onto the other.

Q. By converting bonds into stock you decreased charges a million and a half and increased the income to your men who were fortunate enough to convert, to $5,000,000? A. No, because the other stockholders, those who were fortunate

enough to convert, as you say, got their proportion. They got a small portion of that.

Q. But $5,000,000 went to those that converted, and the unconverted? A. Yes.

Q. And the same year, it has been brought out here, you appropriated a good deal more to your coal fund, and you received a million dollars more premium on your bonds that year? A. Yes, sir.

Q. And with all that, you passed to your surplus account in this unfortunate year 1910, $5,400,000 odd? A. What we received as a bonus on our bonds would not apply to our surplus account at all.

Q. What becomes of it? A. Credited to the cost of property, as you will see by the red figures on the bottom, taking in reduction of the amount for discount on bonds.

Q. It really goes into the amount that you can appropriate for the purpose of surplus accounts, on the bonds, doesn't it? A. No, it does not; it goes into our cash, but not as a part of the earnings of the road, and it is applied in reduction of our capital account. A. Is it applied on this statement here? A. Yes, sir.

Q. What column is it? A. Under the head of discount on bonds. You see it is taken out of our discount. The red figures in the 1910 column show $1,600,000 surplus—what statement have you got, No. 4?

Q. No. 4. A. Do you see the red figures there?

Q. I thought that indicated the premium on your bonds. A. It does, but it is deducted from discount account.

Q. I cannot tell by these figures. A. The whole column, the heading of the column, shows discount on bonds, and that is put in here as premium. You are correct in saying it represents premium, but it is deducted in our accounts from the total amount of discount, which otherwise would be $9,000,000.

Examiner Brown. You mean in the next column?

Mr. Ripley. No, this column; eight million dollars is the amount, and if it was not for this credit it would be $9,000,000, do you see?

Mr. Lyon. I see. If it were added in it would be $10,000,000, instead of $8,000,000? A. Yes.

Q. Let me ask you, in your opinion, upon this showing, is this a bad showing, do you consider, for 1910, from a railroad standpoint? A. I think it is a very good showing, con-

sidering what we have to contend with, but I do not consider that it is a safe margin.

Q. And that is the year that you made, what I term at least, these extraordinary expenditures for way and structure? A. I do not admit them to be extraordinary.

Q. I know, but I say I term it that. A. Yes.

Q. Was there any increase in wages during that year? A. Yes, sir.

Q. And they are included here? A. Very largely, yes.

Q. One other question and I will be through with Mr. Ripley. There was quite an important bitter strike here in the spring of 1910, was there not? A. No, sir; no strike here at all.

Q. It didn't get to a strike? A. No, sir.

Q. I was misinformed then. Didn't the switchmen or anybody strike here in the spring? A. No, sir.

Q. Well, I was misinformed. A. No, sir.

Q. That is all.

Mr. Atwood. About Exhibit 3, will you turn to it Mr. Ripley? You will observe in the column third from the right as you look at the sheet, the per cent. on stock outstanding, and comparing it with income balance applicable to dividends which is the preceding column, I take it that the percentages appearing in the third column from the right have reference to the per cent. of income that could be applied upon dividends or upon the stock? A. That is the per cent. that is earned, not the per cent. which was paid.

Q. I understand. That might have been applied, had you chosen to so apply it? A. Yes.

Q. Now, then, about half of your stock is preferred, speaking in round numbers? A. No, not now.

Q. To be exact, the preferred stock as shown by your report in 1909 is $114,000,000? A. $235,000,000 common, that is about one-third and not half.

Q. $114,000,000 preferred, and common $165,000.000? A. The common is $121,000,000 in 1909 against $114,000,000 preferred, and in 1910 it is $165,000,000 against $114,000,000.

Q. Now, then, the computations which were made here, we will take 1910, included the preferred and the common upon the same interest bearing or possible interest bearing basis? A. The third column from the right to which you refer, indicates the percentage of net earnings that was applicable to dividends of all kinds.

Q. Of all kinds? A. Yes, sir.

Q. Now, then, what was the per cent. that was applied to be paid under your preferred stock contract in order to discharge your obligations to the preferred stockholders? A. Five per cent.

Q. Now, then, if you had made your computation on the basis of five per cent. for the preferred, and given the balance to the common, your common stock would have drawn, or there would have been a percentage like 8.8 on your common, would there not? A. No.

Q. What would it have been? A. Well, that computation has not been made here. I do not know just what it would have been.

Q. Will you ask your very competent accountant to make computations in connection with this Exhibit 3, so as to make disclosure of what would be the income balance applicable to dividends on common stock if you had paid but five per cent. required upon the preferred? A. No objection to that.

More About Capitalization.

Q. All right, sir. Now, then, with relation to the possibility of differentiating capitalization, to use the language of Mr. Bailey, if I do not misquote him, on what we might call the subsidiary lines, the balance—the branch lines, from that of the System—to shorten the matter I will state as I understand it, and you will set me right where I am wrong. The Atchison, Topeka & Santa Fe Railway System as a corporation itself owns and operates seven thousand odd miles of railroad; that the same corporation has, by the purchase of the stock and bonds of certain other railroads, become the owner of the capitalization or paper representative of the capitalization of those subsidiary lines. A. Yes, sir.

Q. They are still retaining their corporate entities, as I understand? A. They are.

Q. Take the Gulf, Colorado & Santa Fe, that is still a corporation, possibly a Texas corporation, I do not know? A. Yes, it is.

Q. The stock and bonds of that company were acquired in toto by your company and are now in the treasury pledged with other property for certain bond issues of your company? A. Correct.

Q. Was there a corresponding issue of stock and bonds of the Atchison, Topeka & Santa Fe to correspond with the amount of stock and bonds acquired when they purchased those of the Gulf road, or was there more or less? A. I

cannot answer that question. It was long before the existence of the present company.

Q. Then you do not know, but you do know the property, of course? A. Yes.

Q. And you do know the capitalization of that company is represented by stock and bonds of the Gulf Company now in the treasury of the Santa Fe? A. Substantially, yes.

Q. Does that fairly represent in your judgment the actual physical worth for which those stocks and bonds for that capitalization stand? A. I cannot answer that question.

Q. All right. A. I do not recall now what the capitalization of the Gulf, Colorado & Santa Fe is, taken as a whole.

Q. But the books of your company, and the disclosures of the contents of your treasury would show what that is? A. Correct.

Q. Of course there is a separate account kept of the gross and net earnings of the Gulf Line? A. Yes.

Q. And by taking the capitalization of the Gulf Line as represented by the stocks and bonds of that company now in your company's treasury, and making application thereto of the net gross earnings, you could arrive at what the results to the capitalization of that line of its earnings were? A. Very easily.

Q. Be good enough to direct Mr. Bailey, if he is the gentleman to direct, to give us those figures so that that computation can be made? A. We will furnish it.

Q. What I have said with relation to that I would, without multiplying words, ask you to do with relation to each of the other lines, subsidiary lines, if that is the proper phrase. A. We cannot do that with many of those lines because they are leased and included in the operations of the Santa Fe proper. They are leased outright and no separate account is kept of their earnings and expenses?

Q. What roads? A. Practically all except the Gulf, Colorado & Santa Fe, they are all included in the report.

Q. They are operated by the Santa Fe Road proper? A. They are.

Q. Has their corporate identity been liquidated, have they gone into liquidation? A. No.

Q. Does the corporation of the Pecos & Northern Texas still exist? A. That does, and we continue the figures for the Pecos & Northern Texas.

Q. That is as to two of them. Take the Rio Grande—well, that is too small to bother with. The Eastern Railway

of New Mexico? A. That is leased to the Atchison Company.

Q. That is leased to the Atchison Company and the amount of money expended upon that appears in your rental column? A. No, not in our rental column.

Q. If you lease you do not pay rent? A. Yes, but we rent by assuming its liabilities.

Q. What is the contract of lease then? That you are to pay anything to the stockholders of the Eastern Railway of New Mexico? A. There are no stockholders except the Santa Fe Railroad. Its interest charges are paid by the Santa Fe Railroad, that is the lease.

Q. At the time of the acquisition of the Eastern Railway of New Mexico it was acquired by the Santa Fe by the purchase of the entire capital stock of that railroad? A. Yes, sir.

Q. Then the Santa Fe became the owner of the stock which represented the road? A. Yes.

Q. It was thus obliged to assume the obligations of the road and did so, and what you call a contract of lease is simply an obligation on the part of the Santa Fe to pay the fixed charges resulting from the bonded indebtedness of the Eastern Railway Company of New Mexico? A. Quite right.

Mr. Lyon. Just there, to make that clear, that was purchased by stock of the Atchison Company? A. No, sir.

Q. What was it purchased with? A. It was purchased with cash obtained from the sale of bonds.

Mr. Atwood. The sale of bonds of the Santa Fe Company? A. Yes.

Q. When I speak of that in that way, without the attachment of the word system, I mean simply the corporation proper. A. I would like to amend that a little. It was originally purchased with cash, in fact it was built by another corporation and it was practically built by the Santa Fe Company, and the bonds were issued as bonds of the Eastern Railway of New Mexico, but with the Santa Fe guarantee attached to them.

Q. What is the total bonded indebtedness? A. Practically it was a Santa Fe bond, and is included in part of our bonded obligation.

Q. How are those bonds you are just speaking of denominated, Santa Fe bonds or Eastern Railway of New Mexico bonds? A. Eastern Railway of New Mexico bonds.

Q. There is a series of bonds known as that? A. Yes.

Q. What is the total of that approximately? I know you cannot give exact figures? A. I think it is $17,000,000. Is that right, Mr. Bailey?

Mr. Bailey. Yes.

Mr. Atwood. $17,000,000, so that the rental you pay on the Eastern Railway of New Mexico is represented by the interest paid on the $17,000,000 of bonds? A. Yes.

Q. What rate do those bonds carry? A. Four per cent.

Q. Well, they appear in the report which you will make, Mr. Auditor? A. Yes, they are all there.

Q. Now, then, you have a separate account of the net gross earnings and expenses on the Eastern Railway of New Mexico? A. No.

Q. There is no separate account kept of that at all? A. No.

Q. That is carried in the other accounts of the Santa Fe? A. Yes.

Q. There are no means you have by which you can determine whether or not it is a profitable venture or otherwise, for you to pay the interest on that $17,000,000 of bonds and run the road? A. No.

Q. You do not know whether you win or lose on that proposition? A. No.

Q. Is that true of any of your other railroad appendages that you are so situated with reference to them that you do not know whether you make or lose on them? A. Yes.

Q. Name those in which you are thus unhappily situated? A. I think probably all of them.

Q. Take up the Pecos & Northern Texas, 151 miles? A. I have already stated that is operated as a separate company.

Q. Yes, I think you did. And what is true of the Northern Company would also be true of that as to the possibilities of computation? A. Yes.

Q. Now, then, the Santa Fe, Prescott & Phoenix, 257 miles. How is that held and operated by the Santa Fe, if at all? A. The Santa Fe bought the second mortgage bonds and the stock. The first mortgage bonds are still in the hands of the public and it is operated under a separate management, but its earnings and expenses are included in our general statement.

Q. Is there a separate account in the bookkeeping department, of the result of the operation of that line? A. Yes, there is.

Q. So you can tell by finding out how much you made from it and by finding out how much you pay for it, whether you win or lose? A. Yes.

Q. That will be furnished by your auditor? A. Yes.

Q. I would like to have it. The Southern Kansas Railroad Company of Texas, what about that? A. That is operated separately.

Q. And what is true of the Gulf Road is also true of that? A. Yes.

Q. And also true of the figures that will be furnished? A. Yes.

Q. Now, the Santa Fe have acquired these properties, we will take for example this last one, by the issue of stock bonds directed to those from whom the stock was acquired? A. No, because in almost all cases the Santa Fe, as I have already said, was the original party that owned the road, and the party that built the road practically. We built all these other roads, and because of state laws and for other reasons, we built them under the name of separate corporations, and when they were finished, they were leased to the Santa Fe.

Q. What part of the total capitalization of the Santa Fe Railway Company is represented by the physical property of the Southern Kansas Railway Company of Texas? A. We can give you that information, if you want it.

Q. All right. Will you do that? A. Yes.

Q. Now, I would ask the same information with regard to each of the subsidiary lines? A. We will give you that; I think we can give it to you.

Q. Of course, I know it cannot be done in a minute. Your asurance that it will be done is enough for us. A. You can give it as to most of them, can't you, Mr. Bailey?

Mr. Bailey. Yes, for those properties that were purchased since January 1, 1896.

Mr. Atwood. Won't you take us into your confidence, Mr. Bailey?

Mr. Bailey. I say those properties which were purchased since January 1, 1896, we know what the cost of them was on our books, and the other properties that formed a part of the Southern Kansas, before the organization of this company, there is no way of telling the cost of that company.

Mr. Atwood. Well, I will trouble about that when the time comes.

Mr. Ripley. There are very few of those properties. I supposed you were referring to what has been done since the

present company has been in existence. Of course, we cannot tell as to some of these companies what the old companies paid for them, what part of the capitalization of that company they represent, because we bought the whole thing in gross.

Q. I understand. A. But since this corporation was organized we can give you all that information.

Q. And there is in the treasury of Santa Fe, stock and bonds, property described as Gulf stock and bonds and Eastern Railroad stocks and bonds, and so on? A. Yes.

Q. And by ascertaining the quantum of them we have at least one measure of value as to what the proper capitalization is, and that is what we want to know that for.

Operating Expenses and Betterments.

Will you have your accountant furnish a report or statement showing the amount applied to betterments and improvements and charged to operating expenses for each year from 1896 to 1910 inclusive? A. Why, no.

Q. Do I make clear the purpose of my request? A. Yes, but there are no such figures extant, and there is no such item.

Q. Take for example the year 1909— A. We have charged a good deal of it to income but not to operating expenses. That is the distinction.

Q. Well, just for illustration's sake, did you state how the $700,000 on the tunnel was charged, was it charged to income or opertaing expenses? A. That is charged to operating expenses.

Q. Your report of 1909 shows an expenditure during that year of $400,000,000 during the year for what you are pleased to call additions and betterments? A. Yes.

Q. When that expenditure was made to what account was it charged? A. Charged to various accounts. Charged primarily to additions and betterments and taken out of income, as you will see by the report.

Q. And was not charged to operating expenses?

Mr. Bailey. No.

Mr. Atwood. Here is the reserve fund for future expenditures, for additions and betterments that you had at the end of the fiscal year 1909, amounting to $5,000,000? A. Yes.

Q. Has that been expended during the year 1910? A. Yes.

Q. Was that charged to income or operating expense? A. Income.

Q. Now, if I understand you, or I will put it in the way of a query, where things in the nature of betterments, like the substitution of a concrete lining for a timber lining to a tunnel occasioned expenditure, was it the policy of your company to charge such expenditure to betterments or to operating expense? A. Well, a thing of that kind ought to be charged to operating expense and had been generally, but not always.

Q. Have your employes a method of bookkeeping that enables you to now say what proportion of the sums of money that were actually employed in the preservation of ways and structures was charged to operating expenses when it was employed in the creation of a betterment of the character of which I have spoken? A. No, there is nothing that will show that. There are a very large number of instances, as I said yesterday, which are on the border line between improvement and betterment, and we have to some extent charged those up according to our ability to pay. If we felt we were paying pretty well we would charge it up to operating expenses.

For instance, when we rebuild a line of railroad and straighten it out and abandon, as we have done in some cases, forty or fifty or sixty miles of old line, the cost of the abandoned property is a proper charge to operating expenses. We have not always been able to charge it to operating expenses; sometimes we pro rated that over a series of years. But if we were able we charged it straight to operating expenses, where it belonged.

Q. Have you in mind a thing that is a concrete application of the illustration you have just employed, the abandonment of a road? A. Yes.

Q. Your books would show what was done with that? A. I have told you what was done with that.

Q. Is there more than one instance of that particular thing? A. A great many.

Q. And your books would show what proportion of such loss—if loss is the right word—was charged to operating expenses and what not? A. Yes.

Q. Now, then, I will make this request, if you will be so good as to comply with it, to have your accounting department supply us and the representatives of the Commission, with figures, so far as your books make it possible, disclosing what sums have been charged to operating expenses that actually went either for a substitution of abandonments, of things such as you have just mentioned, or for the building and construc-

tion of what is recognized as betterments and improvements? A. I doubt if it would be possible to dig that information out of the books for fifteen years.

Q. Well, the last five? A. Well, I think it would be doubtful if we could do it for the last five. We could take some large item, perhaps, like the abandonment of a line, and we could tell you how much we have charged up for that, I suppose, by going all over the books; but to go over the multitude of transactions and entries on each one and pass on it as to which might be a doubtful proposition, as to whether it should be a betterment or ordinary operating expense, would be a Herculean job. I don't believe we are prepared to do that.

Mr. Bailey. It would take about fifteen years to furnish one year.

Mr. Atwood. Cutting out all but the last five years.

Mr. Bailey. I would want at least fifteen years to do that. I would want about fifteen years to do that. We would have to examine every distribution account over 10,000 miles of railway.

Mr. Ripley. We would have to go through every little item.

Mr. Atwood. Can you make a computation that would show expenditures of this nature that were charged to operating account, that are in excess of $5,000, each item in excess of that amount?

Mr. Ripley. I don't think so. For the last two years we have modified our methods by order of the Commission and the books have been kept in accordance with the Commission's orders, and have been examined and passed upon, and I do not think we would go back and readjust on any other basis than that which we have used.

Q. Of course, as far as it could be possible to be done, you are entirely content to have Mr. Bailey or any other person able to do it, to do so? A. Yes, I have nothing to conceal about it at all.

Old Time Dividends.

Q. Have you any knowledge of the stock dividend of the old company, declared in 1881? A. I know there was a stock dividend.

Q. Do you know the amount of it? A. I do not. I know that for many years prior to that they had had no dividend at all.

Q. Do you know what disposition was made of the $15,692,-

100 stock dividend that was distributed among the stockholders in 1881 under the reorganization scheme? A. No.

Q. What was done with that stock? A. I do not know.

Q. Has—how was it taken care of, or don't you know? A. I don't recall prior to that time. I don't know.

Q. So that treated, so far as you know, with the balance of the capital stock outstanding with the old company at the time of the reorganization? A. I don't know.

Q. Do you know what disposition was made toward the taking in of the old stock as an entirety, or the provision made for it under the reorganization scheme? A. Under the reorganization?

Q. Yes. A. I think it was all taken in. It was all assessed.

IN SEARCH FOR "WATER."

Q. So if there had been fifteen millions of water or stock dividend in the stock, and it was all taken care of, the water was still there? A. I should not call it water.

A. All right, we will call it H_2O, that would be the chemical name for it.

Mr. NORTON. I thought you were going to keep out of science. Didn't you promise us to keep out of science?

Mr. ATWOOD. I will say this, since it is impossible in a minute to go over this account so as to ask the questions, that for the sake of saving time I will stop the questioning now and ask the privilege of putting these questions later when we get these things arranged.

Mr. BROWN. It is quite possible that the accountant may be able to answer the questions you desire answered.

Mr. ATWOOD. That is quite true.

Mr. LYON. I was going to ask Mr. Ripley a question which I think probably Mr. Bailey can explain better than Mr. Ripley, so I will defer the question.

Examiner BROWN. Of course if he can not answer it, Mr. Ripley will return for that purpose.

Mr. NORTON. In answer to the H_2O, Mr. Ripley, you have shown in your direct examination that you have charged off about twenty-three million dollars at one time, and how much at another?

Examiner BROWN. About forty-one million dollars altogether, I think it was.

Mr. NORTON. Yes. That is all.

Mr. LYON. I want so say at this stage, that I shall ask the statement from the different carriers, and as to the Santa Fe I thought I would state it at this time, a statement showing just what effect the proposed increase in rates would have upon the revenues of the Santa Fe Company for a given period of time.

Examiner BROWN. This is, an approximate estimate of what the increase will yield?

Mr. LYON. The eastern roads are preparing statements now that I understand are not approximate; they are exact. They are taking the revenues earned for say two months of the year under existing rates and applying to those shipments the rates proposed to be put into effect on November 1st, so that the Commission may have an idea of what the difference will be in the course of a year. Mr. Ripley has said in his statement that it only amounts to about $150,000. We would like to have exact information on that.

Mr. RIPLEY. For what time?

Mr. LYON. The time will be designated later; one month or two months.

Mr. NORTON. We have that now for a stated time.

Mr. LYON. Yes.

Mr. NORTON. I understand the eastern roads are making approximations also of a certain six days here and there.

Mr. LYON. Whatever is a fair and reasonable proposition; the Commission simply wants to know what is being done.

Mr. NORTON. Yes.

Mr. LYON. And also an exact statement, so far as you can make it, of the increase in the wages of the labor account under the alleged advance. I do not mean the advances that have been alleged here, but what has been in the press, and the proposition that the rates have been advanced on that basis. But I think we will call for those in writing from Washington, and prepare the proper data from them.

Mr. NORTON. I think we have most of that now for the Santa Fe.

SOME OBSERVATIONS BY THE PRESS.

Traffic World and Traffic Bulletin, September 3:

"Our books are open.

"This was the prompt answer made by the Santa Fe in denial of the despatch from Washington Thursday, purporting to be based on information emanating from the Commission and charging that the figures put in evidence by the Santa Fe in the present hearing lead to a manifest incorrect impression and were also believed to have been manipulated.

"Attorney Norton, for the road, insisted on reading into the record, Thursday afternoon, over the protest of Attorney Lyon for the Commission, a statement authorized by President Ripley denying the insinuation published in a morning paper and offering to throw open the books of the company to either shippers or commissioners and render all the aid possible, even to detailing employes to assist in the work of examination, in order that there might be no doubt as to the accuracy of the Santa Fe's exhibits and the honesty of its course. Mr. Lyon demurred against having the protest spread upon the records of the case, because he felt it was an uncalled for reflection on the Commission, but he was overruled by Chief Examiner Brown.

Mr. Norton's statement follows:

'In view of a dispatch from Washington appearing to-day purporting to be based upon information emanating from the Interstate Commerce Commission and charging that the figures put in evidence by The Atchison, Topeka & Santa Fe Railway Company lead to a manifest incorrect impression, and also that it is believed they have been manipulated, I am authorized by President Ripley to state that the accounts and records of the Railway Company are kept upon forms prescribed by the Interstate Commerce Commission and that they are absolutely correct. In addition to following the requirements of the Government in this respect the Railway Company has its accounts examined every year by independent auditors, those auditors being now engaged upon this work, which they began about 30 days ago. What this independent examination of the accounts of the Railway Company does is shown by the following certificate of the independent auditors on pages 26 and 27 of the annual report of 1909, a copy of which went to the Interstate Commerce Commission, at the foot of the general balance sheet for the year ending June 30:

> We have examined the books and accounts of The Atchison, Topeka & Santa Fe Railway and System lines, and certify that the above balance sheet and relative income and profit and loss accounts are properly drawn up therefrom, and show the correct income of the company's system for the year and the true financial condition at the close of the year. We have been provided with satisfactory certificates from the trustees as to the securities pledged under the different mortgages, and we have also verified the cash items.
>
> PRICE, WATERHOUSE & Co., *Auditors.*
>
> NEW YORK, September 8, 1909.

"Because the statements which have been sent out from Washington as proceeding from the Interstate Commerce Commission since the contest over these tariffs began have been uniformly misleading, narrow and unfair to the carriers, we take this opportunity of saying that if either the Interstate Commerce Commissioners or the shippers have any doubt respecting the accuracy of Santa Fe records or accounts, or of the honesty of the company's course, we hereby tender to them the opportunity of making personal inspection of our books, and we also offer to put at their disposal all the employes that they may need and render to them every other assistance in our power to aid in making, for the record in this case, a thorough investigation."'

Following the foregoing statement by the Santa Fe Company Commissioner Prouty, who was in Chicago on September 2, after disavowing any intention of the Commissioners or their assistants to discredit the good faith of the railroads, made this statement in the Chicago papers of September 3:

"There is absolutely no suspicion in my mind or, as far as I know, in the minds of any of the commissioners, that the accounts of the railroads have been padded or juggled in any way."

Chicago Tribune, September 1, 1910:

"Capital invested in a public service corporation is entitled to a reasonable profit. * * * But the fact must not be overlooked that if railroad investments were much less profitable than average investments year in and year out throughout the country, capital would keep out of railroads. That would be a national misfortune. For the country is growing and the roads have to grow to keep up. Traffic swells and new tracks, new rolling stock, and larger terminals and depots have to be provided. The construction expenditures of an American railroad never will end. * * *"

Chicago Record-Herald, August 31:

"The railroads are not as safe and modern as they should be, and without more income the demands for track elevation, new stations, more comfort, greater safety cannot be met. * * *"

Chicago Tribune, August 31:

"The argument made by President Ripley of the Santa Fe for higher rates for his road is temperate and clear. It has the earmarks of sincerity. The shippers, while disputing his contention that higher rates are necessary or expedient, will concur in much of what he says. They will agree that the Santa Fe will have to put a good deal of money into betterments and that most of the money should come out of earnings, instead of being obtained through stock and bond issues. We should all admit the soundness of Mr. Ripley's reasoning on this point. The capitalization of a road should not be increased because of track elevation or the construction of a costly depot. * * *"

Chicago Evening Post, August 31:

"New light upon the question of why the business of the country in many highly important lines has suffered depression—the result of curtailed consumption—was afforded to-day at the Interstate Commerce Commission investigation of the proposed freight rate advance.

At the hearing in the Federal Building the records of the Santa Fe Railroad governing improvements, present and prospective, were thrown open to the examiners. These showed that during the last year $10,750,740 was stricken from the budget of this single line, representing rail laying, station building, bridge construction and similar undertakings which the directors decided should be done but for whch there was no money available.

As it originally stood, the testimony showed, the budget called for the expenditure of $30,000,000. At the suggestion of the officers of the road the directorate trimmed this amount to $19,000,000. But of the $19,000,000 approved $10,000,000 of the work proposed was unaccomplished.

Previous budgets, it appeared, had suffered in similar fashion. In 1908 $16,793,924 was approved, but only $8,180,572 appropriated. In 1909 $12,299,881 was the prospective expenditure sanctioned by the directors, but $9,583,000 was the amount paid out for improvements. * * *"

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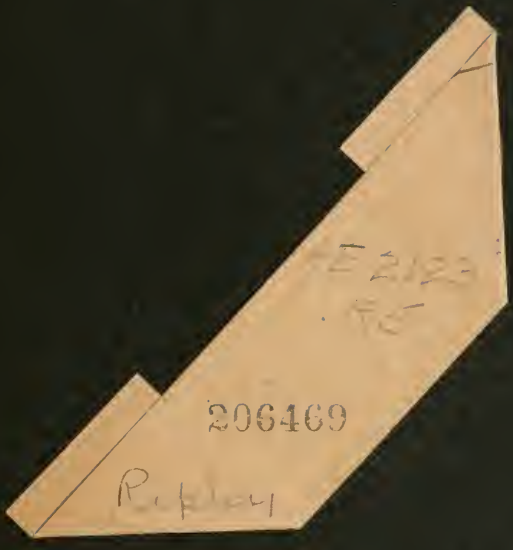
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